CHINA ZHENGTONG
AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

Stock Code 股份代號：1728

# ULTRA-LUXURY AND LUXURY BRANDS

Interim Report 2013中期報告

# CONTENT

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

In the first half of 2013, the Chinese economy in every respect developed in a balanced manner with progress made through stability. According to the statistics issued by the National Bureau of Statistics of China, the gross domestic products (GDP) of China in the first half of 2013 recorded a period-on-period growth rate of approximately 7.6%. Development of the Chinese passenger automobile market in the first half of 2013 remained steady as in the second half of 2012 with 10.782 million automobiles sold in China, representing an increase of 12.3% over the same period of 2012. While growth in sales of luxury and ultra-luxury branded automobiles in China slowed down, China ZhengTong Auto Services Holdings Limited (the "Company" or "We") and its subsidiaries (collectively the "Group") managed to grow at a higher rate for its luxury branded automobiles, namely BMW/MINI, Audi, Jaguar/Land Rover and Volvo, ahead of the average seen in the Chinese passenger automobile market. In the first half of 2013, half-year sales volume of Audi branded automobiles in China smashed through 200,000 for the first time to approximately 228,000, up by 17.7%. BMW sold approximately 272,000 automobiles in Asian markets, up by 14.4% over the same period last year. Sales volume of Jaguar and Land Rover branded automobiles in China grew steadily to 42,155, a growth of 16.0% over the same period last year. Total sales volume of Volvo branded automobiles in China grew to 28,702, an increase of 34.3% over the same period last year, breaking another half-year sales record. China continued to be the fastest-growing market for Volvo branded automobiles in the world. In general, growth in sales volume of luxury branded automobiles tended to slow down at a moderate level, and our growth in sales volume of luxury branded automobiles was much higher than the average growth rate of luxury branded automobiles market in China.

Comparatively, after-sales services in respect of automobiles consumption have grown rapidly. At the end of 2012, automobile ownership in China was 120,890,000, representing a year-on-year increase of 14.3%, and increasing number of automobile ownership has stimulated a huge demand for after-sales services, promoting a rapid growth in the after-sales services in respect of automobiles consumption and leaving it a room for further rapid development.

## BUSINESS REVIEW

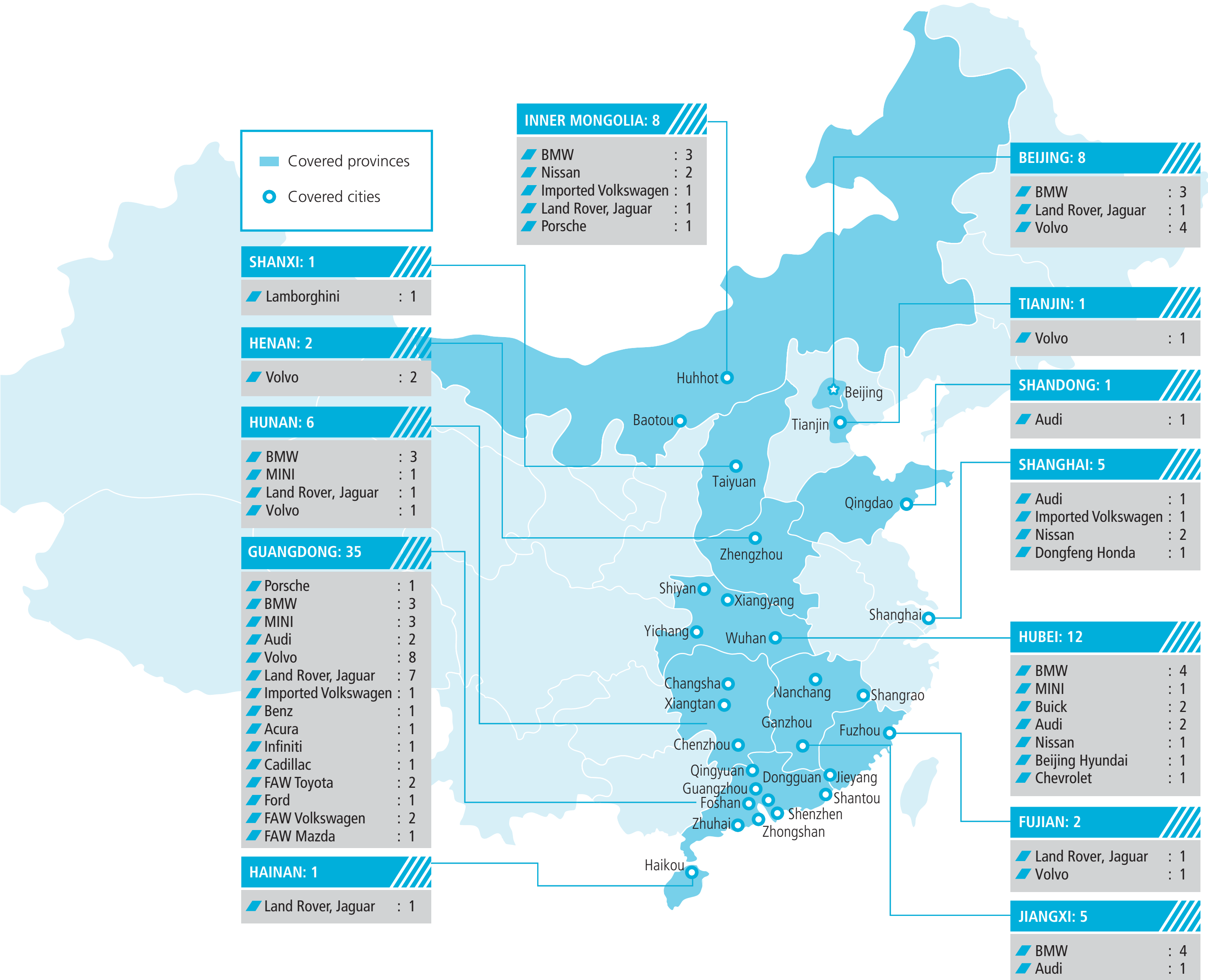
### Healthy growth in sales volume of luxury and ultra-luxury branded new automobiles

Our sales volume of luxury and ultra-luxury branded automobiles continued to grow in a healthy manner in the first half of 2013 on the back of a higher growth rate for its luxury branded automobiles, namely BMW/MINI, Audi, Jaguar/Land Rover and Volvo. In the first half of 2013, our sales volume of automobiles totaled 36,347, in which luxury and ultra-luxury branded automobiles accounted for 25,156, representing a period-on-period growth of 13.3%. However, as competition became increasingly intense, our revenue from sales of luxury and ultra-luxury branded automobiles in the first half of 2013 was approximately RMB11,080 million, representing a modest period-on-period growth of approximately 1.7%. Revenue from sales of luxury and ultra-luxury branded automobiles accounted for approximately 89.0% (1H2012: approximately 88.0%) of our total revenue from sales of new automobiles.

### Balanced Expansion of Nationwide Network and Well-diversified Brand Portfolio

In the first half of 2013, the Group set up one Cadillac 4S store in Dongguan, expanding the number of our dealership outlets to 87 as at 30 June 2013, consisting of 71 dealership stores for luxury and ultra-luxury branded automobiles, and 16 dealership stores for mid-high end branded automobiles. As of the date of this announcement, the Group further set up a Mercedes-Benz repair and maintenance centre in Shenzhen and it is the largest Mercedes-Benz repair and maintenance centre in Southern China. Our nationwide network provides us with a strong presence in both the large, established automobile markets of the affluent or coastal regions, such as Beijing, Shanghai and Guangdong, and the rapidly developing inland regions of China, such as Hubei, Hunan, Henan, Shanxi, Jiangxi and Inner Mongolia. In the affluent or coastal regions, we strive to establish regional leadership through 4S dealership stores for multiple branded automobiles to reach a wide base of customers. In the rapidly developing and underserved regions, we benefit from being the first mover in the regions to serve the unmet market demand, such as Inner Mongolia, Shanxi, Hunan, Hubei and Jiangxi.

## The Group's Dealership Network As at 30 June 2013



We sell and market a wide variety of automobile brands, targeting the ultra-luxury, luxury and middle market segments, with a particular focus on the best-selling luxury brands in the PRC such as BMW/MINI, Audi, Mercedes-Benz, Land Rover/Jaguar, Porsche and Volvo. A comprehensive brand portfolio can best attract a first-time purchaser who may want to compare different luxury brands and models, and retain existing customers who may consider an upgrade or purchase a second car. Our well-diversified brand portfolio allows us to be less reliant on any single brand and achieve more stable growth.

## Unlocking Growth Potential of After-sales Services

As ownership and penetration rate of luxury and ultra-luxury branded automobiles in China were increasing, the Group has maintained rapid growth in our after-sales services with consistent increase in the gross margin. Meanwhile, our after-sales services have becoming one of our core businesses, unlocking its growth potential in performance.

Turnover of our after-sales services business increased by approximately 29.9% to approximately RMB1,367 million in the first half of 2013 from approximately RMB1,052 million in the same period last year. Gross profit of our after-sales services increased by 34.4% to approximately RMB637 million from approximately RMB474 million in the first half of 2012. The gross profit margin of our after-sales services grew to 46.6% from 45.0% in the first half of 2012. Since the listing of the Group, revenue and gross profit of our after-sales services business have grown rapidly with increasing share of our total revenue and total gross profit. In the first half of 2013, revenue and gross profit attributable to after-sales services increased to 9.8% and 49.0% from 7.7% and 39.7% in the same period of 2012 respectively. Uplift in profitability of our after-sales services was attributable to (1) an innovative and comprehensive model of our after-sales services employed for designing different after-sales services as requested by our customers, such as diversification of accessories for automobiles, expansion of services of automobile decoration as well as emergency repair services via 24-hour call center, in a bid to provide our customers complete after-sales services; and (2) our adherence to operational notion of "customer comes first" by further strengthening management of our after-sales services and enhancing the quality and efficiency of our after-sales services, providing our customers highest quality and express after-sales services so as to maximize our customers' satisfaction and cultivate their loyalty. As the Group endeavored to improve and expand after-sales services, and promptly enhance its service quality, the Group expected to see further growth in revenue, gross profit and gross profit margin. In present, after-sale services business is one of our crucial components, bringing us a steady profit and revenue.

## Seizing opportunities to develop automobile agency services business

While China's automobile market has been getting mature, our automobile agency services business has grown rapidly. In the first half of 2013, our commission income from automobile agency services, including pre-owned automobile, automobile financing and insurance agency businesses, increased to approximately RMB130 million from approximately RMB83 million in the first half of 2012, representing a period-on-period growth of 56.6%. Our automobile agency business flourishingly grew due to the appropriate operating strategy adopted by the Company.

In respect of pre-owned automobile business, the demand for automobile upgrade and replacement has pushed ahead our pre-owned automobile exchange business, providing us huge resources of pre-owned automobiles. We have set up an assessment system and nationwide trading platform for pre-owned automobiles with an aim to support the development of pre-owned automobiles business in all aspects. In respect of our automobile financing business, it has developed rapidly as various financial institutions have provided low-interest loans, and mortgage penetration of certain dealership stores for luxury branded automobile was up to the level of the mature markets in developed countries. We intend to seize this business opportunity to further grow our automobile financing loan agency services. In respect of our insurance agency business, it has been expanding with the increasing number of our customers. We will consolidate all our existing insurance business by establishing a nationwide professional insurance agency, providing our customers more customized and professional insurance products through close cooperation with external insurance companies, and also generating the Company a higher insurance commission. Furthermore, we have enhanced the quality of our services and diversified our services in respect of licensing, annual examination, insurance claim for automobile accident loss and car leasing, providing our customers a total value-chain service platform.

## FINANCIAL REVIEW

### Turnover

For the six months ended 30 June 2013, the Group generated a turnover of approximately RMB14,010 million, representing an increase of approximately 2.4% as compared to the turnover of approximately RMB13,683 million in the first half of 2012. The increase in turnover was mainly due to higher growth of the revenue of our after-sales services.

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| **Sources of turnover** | **Turnover (RMB'000)** | **Contribution (%)** | Turnover (RMB'000) | Contribution (%) |
| Sales of new automobiles | **12,448,978** | **88.9** | 12,377,760 | 90.5 |
| After-sales services | **1,367,004** | **9.8** | 1,052,474 | 7.7 |
| Logistics and lubricant oil | **194,030** | **1.3** | 252,478 | 1.8 |
| Total | **14,010,012** | **100.0** | 13,682,712 | 100.0 |

Revenue of the Group was derived from the sales of new automobiles, the provision of after-sales services and other business, in particular the after-sales services generating greater proportion of total revenue of the Group. In the first half of 2013, revenue from the sales of new automobiles amounted to approximately RMB12,449 million, representing an increase of approximately 0.6% as compared to approximately RMB12,378 million in the first half of 2012, and accounted for approximately 88.9% of the total revenue in the first half of 2013. Revenue from the provision of after-sales services was approximately RMB1,367 million, representing a growth of approximately 29.9% as compared to approximately RMB1,052 million in the first half of 2012, growth in revenue of after-sales services was principally due to increasing number of customers and peak period for automobile repair services, new 4S outlets entering into their mature stage also contributed the rapid growth in number of customers of after-sales services. In the first half of 2012, revenues from the sales of new automobiles and the provision of after-sales services accounted for 90.5% and 7.7% of our total revenue respectively, whereas revenues from the sales of new automobiles and the provision of after-sales services in the first half of 2013 accounted for 88.9% and 9.8% of our total revenue respectively, representing an increase of 2.1% in respect of the revenue from the provision of after-sales services.

In the first half of 2013, turnover from luxury and ultra-luxury branded automobiles increased by approximately 1.7% to RMB11,080 million from approximately RMB10,897 million in the first half of 2012, accounting for 89.0% of revenue from the sales of new automobiles.

## Cost of sales

For the six months ended 30 June 2013, our cost of sales rose approximately 1.8%, which was in line with the increase in sales revenue, to approximately RMB12,711 million as compared to approximately RMB12,488 million in the same period of 2012. In the first half of 2013, the cost of sales for new automobiles increased by approximately 1.0% to RMB11,811 million as compared to approximately RMB11,698 million in the first half of 2012. The increase in cost of sales was partly attributable to the increase in cost of the provision of after-sales services by approximately 26.3%, which was in line with the increase in turnover from the after-sales services, to RMB730 million from approximately RMB578 million in the first half of 2012.

## Gross profit

For the six months ended 30 June 2013, our gross profit increased by approximately 8.7% to approximately RMB1,299 million from approximately RMB1,195 million in the first half of 2012. Gross profit margin increased by 0.6% to 9.3% from 8.7% in the first half of 2012.

The Group's gross profit was principally generated from sales of new automobiles and after-sales services. In the first half of 2013, gross profit of sales of new automobiles was approximately RMB638 million, a decrease of 6.2% as compared to the same period in 2012; gross profit margin of sales of new automobiles decreased by 0.4% to 5.1% from 5.5% in the first half of 2012. In particular, gross profit of sales of luxury and ultra-luxury branded automobiles decreased by 6.2% to approximately RMB616 million. Gross profit margin of sales of luxury and ultra-luxury branded automobiles dropped to 5.6% from 6.0% in the first half of 2012. The decline in the gross profit and the gross profit margin of sales of new automobiles was mainly due to increasingly intense market competition.

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| **Sources of gross profit** | **Gross profit (RMB'000)** | **Contribution (%)** | Gross profit (RMB'000) | Contribution (%) |
| Sales of new automobiles | **637,691** | **49.1** | 680,243 | 56.9 |
| After-sales services | **637,048** | **49.0** | 473,610 | 39.7 |
| Logistics and lubricant oil | **24,637** | **1.9** | 41,177 | 3.4 |
| Total | **1,299,376** | **100.0** | 1,195,030 | 100.0 |

In the first half of 2013, the increasingly intense market competition, though, slowed down the growth of our sales of new automobiles, a more rapid growth in after-sales services was maintained and became a highlight in our results for the six months ended 30 June 2013. In the first half of 2013, gross profit of our after-sales services was approximately RMB637 million, an increase of 34.4%; gross profit margin of after-sales services increased by 1.6% to 46.6% from 45.0% in the first half of 2012. The increase in the gross profit and the gross profit margin of our after-sales services was attributable to the enhancement of operating efficiency of our after-sales services as well as the improvement of business structure of our after-sales services.

## Selling and distribution expenses

Our selling and distribution expenses for the six months ended 30 June 2013 increased by approximately 3.9% to approximately RMB316 million from approximately RMB304 million in the first half of 2012. Such increase was primarily due to the expansion of our dealership network.

## Administrative expenses

Our administrative expenses for the six months ended 30 June 2013 dropped by approximately 16.7% to approximately RMB280 million from approximately RMB336 million in the first half of 2012. Such decrease was primarily due to the Group's re-assessment of the estimated useful life of car dealerships in the current period by our management. Such move was based on the outlook of the Chinese automobile market and the increasing number of automobile ownership with reference to general practice of automobile dealership industry.

## Profit from operations

For the six months ended 30 June 2013, the Group's profit from operations increased by approximately 25.7% to approximately RMB862 million from approximately RMB686 million in the first half of 2012. The operating profit margin was approximately 6.2%, an increase of approximately 1.2% over 5.0% in the first half of 2012.

## Income tax expenses

For the six months ended 30 June 2013, the Group's income tax expenses amounted to approximately RMB188 million and the effective tax rate was approximately 28.4%.

## Profit for the period

For the six months ended 30 June 2013, the Group's profit for the period increased by approximately 35.0% to approximately RMB474 million from approximately RMB351 million in the first half of 2012. During the period, net profit margin was up by approximately 0.8% to 3.4% from 2.6% in the first half of 2012.

## Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2013.

## Contingent liabilities

As at 30 June 2013, 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 2013, the Group's current assets amounted to approximately RMB9,128 million, representing an increase of RMB292 million as compared to current assets of approximately RMB8,836 million as at 31 December 2012.

As at 30 June 2013, the Group's current liabilities amounted to approximately RMB9,202 million, representing an increase of approximately RMB1,203 million as compared to approximately RMB7,999 million as at 31 December 2012. Such increase was mainly due to overseas borrowings under long-term liabilities of approximately RMB1,205 million being converted to loans due within one year.

## Cash flow

As at 30 June 2013, the Group has cash and cash equivalents amounting to approximately RMB1,219 million, representing an increase of approximately RMB16 million over approximately RMB1,203 million as at 31 December 2012. The Group's transactions and monetary assets are principally conducted in RMB. In the first half of 2013, 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 Group's primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and ordinary recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the six months ended 30 June 2013, the Group had net cash inflow of approximately RMB305 million generated from its operating activities (six months ended 30 June 2012: net cash outflow of approximately RMB541 million).

## Capital expenditure and investment

For the six months ended 30 June 2013, the Group's capital expenditure and investment was approximately RMB414 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 the Group's 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 whole 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 decreased from approximately RMB3,270 million as at 31 December 2012 to approximately RMB2,996 million as at 30 June 2013, which was primarily attributable to the Group's optimization of inventory management, enhancement of capital utilization efficiency and sales productivity.

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** | |
|---|---|---|
| | **2013** | 2012 |
| Average inventory turnover days | **44.4** | 54.6 |

## 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.

## Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 30 June 2013, the Group's cash and bank deposits were approximately RMB2,012 million (including: restricted bank deposits of approximately RMB793 million and cash and cash equivalents), representing a decrease of approximately RMB489 million, from approximately RMB2,501 million as at 31 December 2012. As at 30 June 2013, total borrowings of the Group (including bank loans, other borrowings and bills payable) amounted to approximately RMB7,550 million (31 December 2012: approximately RMB7,753 million). Gearing ratio of the Group as at 30 June 2013 was 43.4% (31 December 2012: 45.8%). Gearing ratio was calculated as total borrowings divided by total assets.

Outstanding borrowings of the Group will become due within one year.

## 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 2013, the pledged assets of the Group amounted to approximately RMB2,264 million (31 December 2012: approximately RMB2,628 million).

## Investments held in foreign currency and hedging

For the six months ended 30 June 2013, 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 2013, the Group had a total of 7,362 employees in China (31 December 2012: 7,258 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. The Company has adopted share option schemes and a restricted share award scheme for granting shares to eligible employees as incentives or rewards for their contribution to the Group.

## Outlook and Strategies

In the first half of 2013, growth in luxury branded automobile market tended to slow down, but the growth of the Group's luxury branded automobiles, such as BMW/MINI. Audi, Jaguar/Land Rover and Volvo, was much higher than the average growth of luxury branded automobile market. As such, it is expected that our sales volume of luxury branded automobiles will maintain steady and even achieve a moderate growth. The Group will make use of the nationwide dealership network and diversified branding to obtain synergies and scale effects in order to maintain our advantage in luxury and ultra-luxury automobile market. Meanwhile, given China's automobile market getting mature and automobile ownership increasing, we expect previous landscape of the Chinese automobile market will be changing, and automobile after-sales services as well as automobile agency services will become more and more important in the Chinese automobile market. Indeed, the Group has seen the potential of the after-sales services and the agency services for development a few years ago and conducted a planning for restructure in advance, identifying the development of after-sales services and agency services as our strategic highlights for future development. Given the changing landscape of the Chinese automobile market, we will capitalize on the broad customer base that accumulated for years focusing on the expansion of after-sales services performance and automobile agency services to enhance the quality of our services, building up a strong brand of our services by adhering the notion of "customer comes first".

The Company has refinancing plans which may be implemented by way of loans, bonds or other instruments. We will continue to monitor the market conditions and take appropriate actions as and when required.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2013, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

### (i) Long positions in the shares and underlying shares of the company:

| Name of Director | Capacity/nature of interest | Number of Shares/ underlying Shares | Approximate percentage of shareholding |
|---|---|---|---|
| Wang Muqing | Settlor of The Grand Glory Trust | 1,372,516,820 (Note 1) | 62.10% |
| Wang Kunpeng | Beneficial Owner | 1,230,000 (Note 2) | 0.056% |
| Li Zhubo | Beneficial Owner | 1,550,000 (Note 3) | 0.070% |

Notes:

1. These shares are directly held by Joy Capital Holdings Limited ("Joy Capital"). The entire issued share capital of Joy Capital is owned by Grand Glory Enterprises Limited ("Grand Glory"), whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

2. These represent the maximum number of shares which may be allotted and issued to Mr. Wang Kunpeng upon the exercise of the options under a pre-initial public offering share option scheme ("Pre-IPO Share Options") granted to him. The Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each share upon the exercise of the Pre-IPO Share Options is RMB1.5.

3. Mr. Li Zhubo has a total of 1,550,000 shares, among which 320,000 shares were purchased in the market, and the remaining 1,230,000 shares represent the maximum number of shares which may be allotted and issued to Mr. Li upon the exercise of the options under the Pre-IPO Share Options granted to him. The Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each share upon the exercise of the Pre-IPO Share Options is RMB1.5.

## (ii) Long positions in the associated corporations of the Company:

| Name of Director | Name of associated corporation | Capacity | Approximate percentage of equity interest |
|---|---|---|---|
| Wang Muqing | Joy Capital | Settlor of The Grand Glory Trust (Note 1) | 100% |
| Wang Muqing | Shantou Hongxiang Materials Co., Ltd. ("Shantou Hongxiang") (Note 2) | Interest of controlled corporation (Note 3) | 80% |

Notes:

1. Joy Capital is the direct owner of 1,372,516,820 shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

2. This entity is one of the Group's operating entities in the PRC in which the Group does not have direct shareholding. By a series of contracts entered into by, among others, this entity and certain wholly-owned subsidiaries of the Company, the Group is given effective control over the financial and operational policies of this entity and is vested with the economic benefits and associated risks in connection with the operation and business of this entity. Details and effects of and rationale for these contracts or contracts of similar nature with respect to the operating entity of the Group in the PRC are set out in the section headed "Contractual Arrangements" of the prospectus dated 29 November 2010 published by the Company. By virtue of the legal rights and relationship created by these contracts, this entity constitutes a subsidiary of the Group and an associated corporation of the Company even though the Group does not have direct shareholding in it.

3. Shantou Hongxiang is held as to 80% by Hubei Shengze, which in turn is held as to 70.4% by Wang Muqing and as to 29.6% by a financial institution of the PRC. Wang Muqing is accordingly deemed by the SFO to be interested in the equity interest in Shantou Hongxiang held by Hubei Shengze, which is his controlled corporation.

Save as disclosed above, as at 30 June 2013, none of the Directors or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

## INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2013, the interests or short positions of the substantial shareholders (other than the Directors) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the shares of the Company:

| Name of Shareholders | Capacity/nature of interest | Number of Shares | Approximate percentage of shareholding |
|---|---|---|---|
| Joy Capital | Beneficial owner (Note 1) | 1,372,516,820 | 62.10% |
| Grand Glory | Interest of controlled corporation (Note 1) | 1,372,516,820 | 62.10% |
| Value Partners Group Limited | Interest of controlled corporation (Note 2) | 176,222,500 | 7.97% |
| Cheah Capital Management Limited | Interest of controlled corporation (Note 2) | 176,222,500 | 7.97% |
| Cheah Cheng Hye | Founder of a discretionary trust (Note 2) | 176,222,500 | 7.97% |
| Cheah Company Limited | Interest of controlled corporation (Note 2) | 176,222,500 | 7.97% |
| Hang Seng Bank Trustee International Limited | Trustee (Note 2) | 176,222,500 | 7.97% |
| To Hau Yin | Interest of spouse (Note 3) | 176,222,500 | 7.97% |

Notes:

1. Joy Capital is the direct owner of 1,372,516,820 shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

2. These shares are held by Value Partners Limited, which is a wholly-owned subsidiary of Value Partners Hong Kong Limited, a wholly-owned subsidiary of Value Partners Group Limited. Cheah Capital Management Limited is wholly-owned by Cheah Company Limited which is in turn wholly owned by Hang Seng Bank Trustee International Limited as the trustee of The C H Cheah Family Trust. Mr. Cheah Cheng Hye is the founder of The C H Cheah Family Trust.

3. Ms. To Hau Yin is the spouse of Mr. Cheah Cheng Hye and is deemed to be interested in the shares held by Mr. Cheah Cheng Hye.

## SHARE OPTION SCHEMES

### (A) Share Option Scheme

The Company has adopted a share option scheme ("Share Option Scheme") pursuant to a resolution in writing passed by the Shareholders on 17 November 2010, which enables the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Share Option Scheme became effective on 10 December 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption.

Eligible participants of the Share Option Scheme include the following:

(i) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of the Company's subsidiaries or any entity (the "Invested Entity") in which the Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of the Company's subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

As of the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commence on the Stock Exchange, i.e. 200,000,000 shares, representing 9.05% of the issued share capital of the Company as at the date of this report.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder, chief executive or Director as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of share options in excess of the Individual Limit is subject to Shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in the 12-month period up to and including the date of grant, are subject to shareholders' approval in general meeting.

The offer of a grant of share options may be accepted by a participant within 21 days from the date of offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the board of Directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the board of Directors, but shall not be less than the highest of (i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the shares of the Company.

Subject to the earlier termination of the Share Option Scheme in accordance with the Share Option Scheme rules, the Share Option Scheme will expire on 16 November 2020.

No options have been granted under the Share Option Scheme since its adoption.

## (B) Pre-IPO Share Option Scheme

The Company has, based on a framework plan formulated on 9 August 2010, formally adopted a pre-initial public offering share option scheme ("Pre-IPO Share Option Scheme") pursuant to a resolution in writing passed by the shareholders on 17 November 2010, which enables the Company to recognise and reward the contribution of certain Directors, senior management and employees of the Group to the growth and development of the Group and the Listing.

Details of movements in the Pre-IPO Share Option Scheme during the six months ended 30 June 2013 are as follows:

| Grantees | Date of grant | Exercise price per share (RMB) | Exercise period | Outstanding as at 1 January 2013 | Granted during the period | Exercised during the period (Note 1) | Lapsed during the period | Outstanding as at 30 June 2013 |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Wang Kunpeng | 10/8/2010 | 1.50 | 01/01/2012–10/08/2017 | 205,000 | 0 | 0 | 0 | 205,000 |
| | 10/8/2010 | 1.50 | 01/01/2013–10/08/2017 | 512,500 | 0 | 0 | 0 | 512,500 |
| | 10/8/2010 | 1.50 | 01/01/2014–10/08/2017 | 512,500 | 0 | 0 | 0 | 512,500 |
| | | | | 1,230,000 | 0 | 0 | 0 | 1,230,000 |
| Li Zhubo | 10/8/2010 | 1.50 | 01/01/2012–10/08/2017 | 205,000 | 0 | 0 | 0 | 205,000 |
| | 10/8/2010 | 1.50 | 01/01/2013–10/08/2017 | 512,500 | 0 | 0 | 0 | 512,500 |
| | 10/8/2010 | 1.50 | 01/01/2014–10/08/2017 | 512,500 | 0 | 0 | 0 | 512,500 |
| | | | | 1,230,000 | 0 | 0 | 0 | 1,230,000 |
| Sub-total | | | | 2,460,000 | 0 | 0 | 0 | 2,460,000 |

| Grantees | Date of grant | Exercise price per share (RMB) | Exercise period | Outstanding as at 1 January 2013 | Granted during the period | Exercised during the period (Note 1) | Lapsed during the period | Outstanding as at 30 June 2013 |
|---|---|---|---|---|---|---|---|---|
| Employees and former employees | 10/8/2010 | 1.50 | 01/01/2012–10/08/2017 | 296,900 | 0 | 0 | 46,650 | 250,250 |
| | 10/8/2010 | 1.50 | 01/01/2013–10/08/2017 | 2,365,000 | 0 | 1,155,000 | 101,125 | 1,108,875 |
| | 10/8/2010 | 1.50 | 01/01/2014–10/08/2017 | 2,365,000 | 0 | 0 | 101,125 | 2,263,875 |
| | | | | 5,026,900 | 0 | 1,155,000 | 248,900 | 3,623,000 |
| | 10/8/2010 | 2.00 | 01/04/2012–10/08/2017 | 455,700 | 0 | 100,000 | 108,200 | 247,500 |
| | 10/8/2010 | 2.00 | 01/04/2013–10/08/2017 | 469,500 | 0 | 0 | 270,500 | 199,000 |
| | 10/8/2010 | 2.00 | 01/04/2014–10/08/2017 | 469,500 | 0 | 0 | 270,500 | 199,000 |
| | | | | 1,394,700 | 0 | 100,000 | 649,200 | 645,500 |
| | 10/8/2010 | 2.50 | 01/07/2012–10/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | 10/8/2010 | 2.50 | 01/07/2013–10/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | 10/8/2010 | 2.50 | 01/07/2014–10/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | | | | 0 | 0 | 0 | 0 | 0 |
| | 20/8/2010 | 2.50 | 01/07/2012–20/08/2017 | 87,200 | 0 | 69,800 | 0 | 17,400 |
| | 20/8/2010 | 2.50 | 01/07/2013–20/08/2017 | 56,000 | 0 | 0 | 0 | 56,000 |
| | 20/8/2010 | 2.50 | 01/07/2014–20/08/2017 | 56,000 | 0 | 0 | 0 | 56,000 |
| | | | | 199,200 | 0 | 69,800 | 0 | 129,400 |

| Grantees | Date of grant | Exercise price per share (RMB) | Exercise period | Outstanding as at 1 January 2013 | Granted during the period | Exercised during the period (Note 1) | Lapsed during the period | Outstanding as at 30 June 2013 |
|---|---|---|---|---|---|---|---|---|
| | 17/11/2010 | 2.50 | 01/07/2012–17/11/2017 | 41,600 | 0 | 15,600 | 0 | 26,000 |
| | 17/11/2010 | 2.50 | 01/07/2013–17/11/2017 | 13,000 | 0 | 0 | 0 | 13,000 |
| | 17/11/2010 | 2.50 | 01/07/2014–17/11/2017 | 13,000 | 0 | 0 | 0 | 13,000 |
| | | | | 67,600 | 0 | 15,600 | 0 | 52,000 |
| Sub-total | | | | 6,688,400 | 0 | 1,340,400 | 898,100 | 4,449,900 |
| Total | | | | 9,148,400 | 0 | 1,340,400 | 898,100 | 6,909,900 |

Notes:

1. The weighted average closing price of the Company's shares immediately prior to the date of exercise of Pre-IPO Share Option Scheme during the period was HK$6.94.

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code ("Securities Dealing Code") regarding securities transactions of the directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. In response to a specific enquiry by the Company, all Directors confirmed that they had compiled with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2013.

## REVIEW OF INTERIM REPORT

The Group's interim report for the six months ended 30 June 2013 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.

## 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 2013.

## CORPORATE GOVERNANCE

The Company had complied with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2013, except for the deviations from code provisions A.2.1 and A.6.7 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 Kunpeng provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices.

Due to other commitments, Mr. Wang Muqing, the non-executive director and Mr. Tan Xiangyong, an independent non-executive director, did not attend the 2013 annual general meeting of the Company.

To achieve high standards of corporate governance, on 28 August 2013, Mr. Wang Muqing, the non-executive director, was appointed as the Chairman of the Board of the Company to achieve a balance of power by establishing a clear delineation of rights and duties for the management of the Board and the Company's day-to-day operations.

## CHANGES IN DIRECTORS' INFORMATION

The following are the changes in the information of Directors since the date of the 2012 Annual Report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51B of the Listing Rules:

Mr. Wang Muqing, the non-executive director of the Company, has been appointed as the Chairman of the Board with effect from 28 August 2013.

Dr. Wong Tin Yau, Kelvin, independent non-executive director of the Company, resigned as an independent non-executive director and ceased to be the chairman and a member of the audit committee of China Metal International Holdings Inc. with effect from 12 July 2013.

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*

28 August 2013

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

**Review Report to the Board of Directors of**
**China ZhengTong Auto Services Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the interim financial report set out on pages 20 to 42 which comprises the consolidated statement of financial position of China ZhengTong Auto Services Holdings Limited as of 30 June 2013, and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as of 30 June 2013 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 August 2013

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

**For the six months ended 30 June 2013 – unaudited**
*(Expressed in RMB'000)*

| | Note | Six months ended 30 June 2013 | 2012 |
|---|---|---|---|
| **Turnover** | 5 | **14,010,012** | 13,682,712 |
| Cost of sales | | **(12,710,636)** | (12,487,682) |
| **Gross profit** | | **1,299,376** | 1,195,030 |
| Other revenue | 6 | **139,125** | 92,507 |
| Other net income | 6 | **18,969** | 38,302 |
| Selling and distribution expenses | | **(315,642)** | (304,265) |
| Administrative expenses | | **(280,029)** | (335,606) |
| **Profit from operations** | | **861,799** | 685,968 |
| Finance costs | 7(a) | **(208,025)** | (200,373) |
| Share of profit of a joint venture | | **7,894** | 9,681 |
| **Profit before taxation** | 7 | **661,668** | 495,276 |
| Income tax | 8 | **(188,057)** | (144,465) |
| **Profit for the period** | | **473,611** | 350,811 |
| **Attributable to:** | | | |
| Shareholders of the Company | | **465,164** | 330,221 |
| Non-controlling interests | | **8,447** | 20,590 |
| **Profit for the period** | | **473,611** | 350,811 |
| **Earnings per share** | 9 | | |
| – Basic (RMB cents) | | **21.0** | 15.0 |
| – Diluted (RMB cents) | | **21.0** | 15.0 |

The notes on pages 25 to 42 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**For the six months ended 30 June 2013 – unaudited**
*(Expressed in RMB'000)*

| | Note | Six months ended 30 June 2013 | 2012 |
|---|---|---|---|
| **Profit for the period** | | **473,611** | 350,811 |
| **Other comprehensive income for the period:** | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of: | | | |
| – financial statements of overseas subsidiaries | | **(2,547)** | (1,231) |
| **Other comprehensive income for the period** | | **(2,547)** | (1,231) |
| **Total comprehensive income for the period** | | **471,064** | 349,580 |
| **Attributable to:** | | | |
| Shareholders of the Company | | **462,617** | 328,990 |
| Non-controlling interests | | **8,447** | 20,590 |
| **Total comprehensive income for the period** | | **471,064** | 349,580 |

The notes on pages 25 to 42 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**At 30 June 2013 – unaudited**
*(Expressed in RMB'000)*

| | Note | At 30 June 2013 | At 31 December 2012 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 1,852,632 | 1,645,646 |
| Lease prepayments | | 295,510 | 299,604 |
| Intangible assets | 12 | 4,022,364 | 4,073,169 |
| Goodwill | | 1,926,551 | 1,926,551 |
| Interest in a joint venture | | 148,931 | 141,037 |
| Interest in an associate | | 3,200 | – |
| Deferred tax assets | 19 | 25,684 | 20,240 |
| | | 8,274,872 | 8,106,247 |
| **Current assets** | | | |
| Inventories | 13 | 2,996,154 | 3,269,552 |
| Trade and other receivables | 14 | 4,119,429 | 3,065,321 |
| Pledged bank deposits | 15 | 793,297 | 1,294,212 |
| Time deposits | | – | 4,100 |
| Cash and cash equivalents | 16 | 1,218,892 | 1,202,800 |
| | | 9,127,772 | 8,835,985 |
| **Current liabilities** | | | |
| Loans and borrowings | 17 | 5,127,525 | 3,694,077 |
| Trade and other payables | 18 | 3,556,573 | 3,909,473 |
| Income tax payables | | 517,764 | 394,964 |
| | | 9,201,862 | 7,998,514 |
| **Net current (liabilities)/assets** | | (74,090) | 837,471 |
| **Total assets less current liabilities** | | 8,200,782 | 8,943,718 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 17 | – | 1,204,874 |
| Deferred tax liabilities | 19 | 927,192 | 938,257 |
| | | 927,192 | 2,143,131 |
| **NET ASSETS** | | 7,273,590 | 6,800,587 |
| Share capital | 20 | 188,774 | 188,666 |
| Reserves | | 6,984,520 | 6,520,072 |
| **Equity attributable to shareholders of the Company** | | 7,173,294 | 6,708,738 |
| **Non-controlling interests** | | 100,296 | 91,849 |
| **TOTAL EQUITY** | | 7,273,590 | 6,800,587 |

Approved and authorised for issue by the board of directors on 28 August 2013.

**Wang Kunpeng**
*Director, CEO*

**Li Zhubo**
*Director, CFO*

The notes on pages 25 to 42 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the six months ended 30 June 2013 – unaudited**

*(Expressed in RMB'000)*

| | Attributable to shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserves | PRC statutory reserves | Exchange reserves | Discretionary surplus reserves | Retained earnings | Sub-total | Non-controlling interests | Total equity |
| **Balance at 1 January 2012** | 187,959 | 4,520,356 | 467,671 | 93,307 | 11,028 | 4,459 | 925,624 | 6,210,404 | 111,515 | 6,321,919 |
| **Charges in equity for the six months ended 30 June 2012:** | | | | | | | | | | |
| Profit for the period | – | – | – | – | – | – | 330,221 | 330,221 | 20,590 | 350,811 |
| Other comprehensive income | – | – | – | – | (1,231) | – | – | (1,231) | – | (1,231) |
| Total comprehensive income for the period | – | – | – | – | (1,231) | – | 330,221 | 328,990 | 20,590 | 349,580 |
| Shares issued pursuant to pre-IPO employee share option scheme (note 20) | 652 | 18,977 | (7,327) | – | – | – | – | 12,302 | – | 12,302 |
| Equity settled share-based transactions | – | – | 717 | – | – | – | – | 717 | – | 717 |
| Dividends | – | – | – | – | – | – | – | – | (5,822) | (5,822) |
| **Balance at 30 June 2012** | 188,611 | 4,539,333 | 461,061 | 93,307 | 9,797 | 4,459 | 1,255,845 | 6,552,413 | 126,283 | 6,678,696 |
| **Balance at 1 January 2013** | **188,666** | **4,544,907** | **336,268** | **139,555** | **11,040** | **4,459** | **1,483,843** | **6,708,738** | **91,849** | **6,800,587** |
| **Charges in equity for the six months ended 30 June 2013:** | | | | | | | | | | |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **465,164** | **465,164** | **8,447** | **473,611** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **(2,547)** | **–** | **–** | **(2,547)** | **–** | **(2,547)** |
| Total comprehensive income for the period | **–** | **–** | **–** | **–** | **(2,547)** | **–** | **465,164** | **462,617** | **8,447** | **471,064** |
| Shares issued pursuant to pre-IPO employee share option scheme (note 20) | **108** | **3,781** | **(1,747)** | **–** | **–** | **–** | **–** | **2,142** | **–** | **2,142** |
| Equity settled share-based transactions | **–** | **–** | **(203)** | **–** | **–** | **–** | **–** | **(203)** | **–** | **(203)** |
| **Balance at 30 June 2013** | **188,774** | **4,548,688** | **334,318** | **139,555** | **8,493** | **4,459** | **1,949,007** | **7,173,294** | **100,296** | **7,273,590** |

The notes on pages 25 to 42 form part of this interim financial report.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

**For the six months ended 30 June 2013 – unaudited**
*(Expressed in RMB'000)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | **2013** | 2012 |
| **Net cash generated from/(used in) operating activities** | | **304,958** | (540,634) |
| **Net cash used in investing activities** | | **(298,437)** | (408,794) |
| **Net cash generated from financing activities** | | **12,045** | 1,117,648 |
| **Net increase in cash and cash equivalents** | | **18,566** | 168,220 |
| **Cash and cash equivalents at beginning of the period** | | **1,202,800** | 1,096,771 |
| **Effect of foreign exchange rate changes** | | **(2,474)** | (2,683) |
| **Cash and cash equivalents at end of the period** | 16 | **1,218,892** | 1,262,308 |

The notes on pages 25 to 42 form part of this interim financial report.

## 1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law, 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 Company and its subsidiaries (collectively, the "Group") are principally engaged in 4S dealership business, motor-related logistics business and lubricant oil trading business in the People's Republic of China (the "PRC").

## 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 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 28 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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 2012 which were issued on 28 March 2013. 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 is unaudited, but has been reviewed by the Company's auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA. KPMG's independent review report to the board of directors is included on page 19.

The financial information relating to the financial year ended 31 December 2012 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 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those statutory financial statements in their report dated 28 March 2013.

## 3 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKAS 1, Presentation of financial statements – *Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 11, *Joint arrangements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7, *Disclosures – Offsetting financial assets and financial liabilities*

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

### Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

### HKFRS 10, Consolidated financial statements

HKFRS10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### HKFRS 11, Joint arrangements

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

### HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

### HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

### Annual Improvements to HKFRSs 2009–2011 Cycle

This cycle of annual improvement contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group has continued to disclose segment assets and segment liabilities in note 10.

## 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### Amendments to HKFRS 7, Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

## 4 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of an 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.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2012 annual financial statements, with the exception of changes in estimates that are required in determining the amortisation of intangible assets.

## 5 TURNOVER

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

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Sales of passenger motor vehicles | **12,448,978** | 12,377,760 |
| Sales of motor spare parts | **229,000** | 177,650 |
| Provision of maintenance services | **1,138,004** | 874,824 |
| Provision of logistics services | **88,429** | 84,400 |
| Sales of lubricant oil | **105,601** | 168,078 |
| | **14,010,012** | 13,682,712 |

## 6 OTHER REVENUE AND NET INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| ***Other revenue:*** | | |
| Commission income | **129,970** | 83,028 |
| Interest income from bank deposits | **7,442** | 9,158 |
| Others | **1,713** | 321 |
| | **139,125** | 92,507 |
| ***Other net income:*** | | |
| Net gain on disposal of property, plant and equipment | **14,033** | 29,695 |
| Others | **4,936** | 8,607 |
| | **18,969** | 38,302 |

## 7 PROFIT BEFORE TAXATION

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

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2013** | 2012 |
| | Note | **RMB'000** | RMB'000 |
| **(a) Finance costs:** | | | |
| Interest on loans and borrowings wholly repayable within 5 years | | **204,127** | 172,430 |
| Other finance costs | (i) | **14,544** | 31,871 |
| Less: interest capitalised | | **(10,646)** | (3,928) |
| | | **208,025** | 200,373 |
| **(b) Staff costs:** | | | |
| Salaries, wages and other benefits | | **234,987** | 214,925 |
| Contributions to defined contribution retirement plans | (ii) | **15,321** | 13,706 |
| Equity settled share-based transactions | | **(203)** | 717 |
| | | **250,105** | 229,348 |

(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 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.

## 7 PROFIT BEFORE TAXATION (CONTINUED)

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 | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **(c) Other items:** | | |
| Cost of inventories | **12,579,326** | 12,373,215 |
| Depreciation | **93,599** | 74,416 |
| Amortisation of lease prepayments | **4,094** | 3,164 |
| Amortisation of intangible assets | **50,805** | 99,414 |
| Operating lease charges | **93,909** | 70,981 |
| Net foreign exchange gain | **(35,094)** | (1,189) |

## 8 INCOME TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Current tax:** | | |
| Provision for PRC income tax for the period | **204,566** | 160,902 |
| **Deferred tax:** | | |
| Origination of temporary differences (note 19) | **(16,509)** | (16,437) |
| | **188,057** | 144,465 |

(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%.

According to the PRC corporate income tax laws and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC enterprises.

## 8 INCOME TAX (CONTINUED)

The Group's subsidiaries in the PRC are directly or indirectly held by the Group's intermediate holding companies, Rising Wave Development Limited ("Rising Wave") and Wealth Fame Holdings Limited ("Wealth Fame"), both of which are Hong Kong tax residents. Since the Group can control the quantity and timing of distribution of profits of the Group's PRC subsidiaries, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

## 9 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2013 was based on the profit attributable to shareholders of the Company for the six months of RMB465,164,000 (30 June 2012: RMB330,221,000) and the weighted average number of ordinary shares of 2,209,858,622 (30 June 2012: 2,206,823,282) in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2013 is based on the profit attributable to shareholders of the Company of RMB465,164,000 (30 June 2012: RMB330,221,000) and the weighted average number of ordinary shares of 2,214,284,796 (30 June 2012: 2,207,951,754) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme, calculated as follows:

*Weighted average number of shares (diluted)*

| | Six months ended 30 June | |
|---|---|---|
| | **2013** **Number of shares** | 2012 Number of shares |
| Weighted average number of ordinary shares | **2,209,858,622** | 2,206,823,282 |
| Effect of deemed issue of shares under the pre-IPO employee share option scheme | **4,426,174** | 1,128,472 |
| | **2,214,284,796** | 2,207,951,754 |

## 10 SEGMENT REPORTING

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

### 1 4S dealership business

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

### 2 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 and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.

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

## 10 SEGMENT REPORTING (CONTINUED)

### (a) Segment results, assets and liabilities (continued)

| | 4S dealership business | | Logistics and lubricant oil businesses | | Total | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **For six months ended 30 June** | | | | | | |
| Turnover from external customers | **13,815,982** | 13,430,234 | **194,030** | 252,478 | **14,010,012** | 13,682,712 |
| Inter-segment turnover | **–** | – | **3,058** | 307 | **3,058** | 307 |
| Reportable segment turnover | **13,815,982** | 13,430,234 | **197,088** | 252,785 | **14,013,070** | 13,683,019 |
| Reportable segment profit | **707,832** | 538,981 | **18,467** | 38,556 | **726,299** | 577,537 |
| Depreciation and amortisation for the period | **144,833** | 174,111 | **3,665** | 2,883 | **148,498** | 176,994 |
| Reportable segment assets as at 30 June 2013/ 31 December 2012 | **9,830,951** | 9,951,346 | **1,579,621** | 1,505,431 | **11,410,572** | 11,456,777 |
| Additions to non-current segment assets during the period | **399,129** | 508,198 | **15,195** | 5,655 | **414,324** | 513,853 |
| Reportable segment liabilities as at 30 June 2013/ 31 December 2012 | **(7,961,982)** | (8,748,434) | **(1,019,261)** | (952,507) | **(8,981,243)** | (9,700,941) |
| Interest in a joint venture/an associate as at 30 June 2013/ 31 December 2012 | **–** | – | **152,131** | 141,037 | **152,131** | 141,037 |

## 10 SEGMENT REPORTING (CONTINUED)

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

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Turnover:** | | |
| Reportable segment turnover | **14,013,070** | 13,683,019 |
| Elimination of inter-segment turnover | **(3,058)** | (307) |
| Consolidated turnover | **14,010,012** | 13,682,712 |
| **Profit before taxation:** | | |
| Reportable segment profit | **726,299** | 577,537 |
| Unallocated head office expenses | **(14,700)** | (12,697) |
| Other revenue | **139,125** | 92,507 |
| Other net income | **18,969** | 38,302 |
| Finance costs | **(208,025)** | (200,373) |
| Consolidated profit before taxation | **661,668** | 495,276 |

| | **At 30 June 2013** | At 31 December 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Assets:** | | |
| Reportable segment assets | **11,410,572** | 11,456,777 |
| Intangible assets | **4,022,364** | 4,073,169 |
| Goodwill | **1,926,551** | 1,926,551 |
| Deferred tax assets | **25,684** | 20,240 |
| Unallocated head office assets | **318,049** | 358,916 |
| Elimination of inter-segment receivables | **(300,576)** | (893,421) |
| Consolidated total assets | **17,402,644** | 16,942,232 |
| **Liabilities:** | | |
| Reportable segment liabilities | **(8,981,243)** | (9,700,941) |
| Income tax payables | **(517,764)** | (394,964) |
| Deferred tax liabilities | **(927,192)** | (938,257) |
| Unallocated head office liabilities | **(3,431)** | (904) |
| Elimination of inter-segment payables | **300,576** | 893,421 |
| Consolidated total liabilities | **(10,129,054)** | (10,141,645) |

### (c) Geographic information

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

## 11 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment with original costs of RMB414,324,000 in aggregate (six months ended 30 June 2012: RMB424,226,000).

## 12 INTANGIBLE ASSETS

| | Car dealerships | Favourable lease contracts | Trademark | Club debenture | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***Cost:*** | | | | | |
| At 1 January 2013 and at 30 June 2013 | 3,888,752 | 36,904 | 362,732 | 363 | 4,288,751 |
| ***Accumulated amortisation:*** | | | | | |
| At 1 January 2013 | (209,884) | (5,698) | – | – | (215,582) |
| Charge for the period | (48,609) | (2,196) | – | – | (50,805) |
| At 30 June 2013 | (258,493) | (7,894) | – | – | (266,387) |
| ***Net book Value:*** | | | | | |
| At 30 June 2013 | 3,630,259 | 29,010 | 362,732 | 363 | 4,022,364 |
| At 31 December 2012 | 3,678,868 | 31,206 | 362,732 | 363 | 4,073,169 |

Note: During the current period, the Group made a re-assessment of the estimated useful life of car dealerships which was changed from 20 years to 40 years. The change in accounting estimate has been accounted for prospectively during the period, with an impact of decrease in amortisation expenses of RMB48,609,000 for the period ended 30 June 2013.

## 13 INVENTORIES

| | **At 30 June 2013** | At 31 December 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Motor vehicles | **2,712,730** | 3,001,337 |
| Motor spare parts | **273,034** | 259,146 |
| Others | **10,390** | 9,069 |
| | **2,996,154** | 3,269,552 |

## 14 TRADE AND OTHER RECEIVABLES

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| Trade receivables | **1,115,582** | 370,946 |
| Bills receivable | **8,438** | 4,725 |
| | **1,124,020** | 375,671 |
| Prepayments | **484,391** | 738,931 |
| Other receivables and deposits | **2,501,990** | 1,950,719 |
| Receivables due from third parties | **4,110,401** | 3,065,321 |
| Receivables due from related parties (note 23(b)) | **9,028** | – |
| Trade and other receivables | **4,119,429** | 3,065,321 |

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.

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| Within 3 months | **1,060,051** | 350,193 |
| More than 3 months but within 1 year | **62,587** | 25,283 |
| Over 1 year | **1,382** | 195 |
| | **1,124,020** | 375,671 |

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

| **Reportable segments** | **Credit terms in general** |
|---|---|
| 4S dealership business | Cash on delivery to 180 days |
| Logistics and lubricant oil business | 30 to 90 days |

## 15 PLEDGED BANK DEPOSITS

Guarantee deposits in respect of:

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| Bank loans | 73,593 | 119,574 |
| Bills payable | 719,704 | 1,174,638 |
| | 793,297 | 1,294,212 |

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

## 16 CASH AND CASH EQUIVALENTS

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| Cash at banks and on hand | 1,218,892 | 1,202,800 |
| Cash and cash equivalents in condensed consolidated cash flow statements | 1,218,892 | 1,202,800 |

## 17 LOANS AND BORROWINGS

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

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| Current | | |
| Unsecured bank loans | 1,845,700 | 1,615,000 |
| Unsecured borrowings from other financial institutions | 320,000 | 500,000 |
| | 2,165,700 | 2,115,000 |
| Secured bank loans | 607,994 | 460,636 |
| Secured borrowings from other financial institutions | 97,196 | 63,200 |
| | 2,870,890 | 2,638,836 |
| Secured long-term bank loans repayable within 1 year | 2,256,635 | 1,055,241 |
| Sub-total | 5,127,525 | 3,694,077 |
| Non-current | | |
| Secured bank loans | – | 1,204,874 |
| Sub-total | – | 1,204,874 |
| | 5,127,525 | 4,898,951 |

## 18 TRADE AND OTHER PAYABLES

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Trade payables | **378,393** | 275,411 |
| Bills payable | **2,422,075** | 2,854,197 |
| | **2,800,468** | 3,129,608 |
| Receipts in advance | **355,862** | 407,111 |
| Other payables and accruals | **400,243** | 372,754 |
| Trade and other payables | **3,556,573** | 3,909,473 |

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

As of the end of reporting period, the ageing analysis of trade and bills payables, based on the invoice date, is as follows:

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Within 3 months | **2,647,311** | 2,966,821 |
| Over 3 months but within 6 months | **150,456** | 162,040 |
| Over 6 months but within 12 months | **2,701** | 747 |
| | **2,800,468** | 3,129,608 |

## 19 DEFERRED TAX ASSETS AND LIABILITIES

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the period are as follows:

| | **Fair value adjustment arising from business combination** RMB'000 | **Depreciation allowances in excess of depreciation charges** RMB'000 | **Future benefits of tax losses** RMB'000 | **Deferred revenue** RMB'000 | **Capitalisation interest** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|---|
| **Deferred tax assets/ (liabilities) arising from:** | | | | | | |
| At 31 December 2012 | (930,088) | (8,037) | 18,350 | 4,132 | (2,374) | (918,017) |
| Credited/(charged) to profit or loss (note 8) | 12,741 | 1,031 | 5,390 | (67) | (2,586) | 16,509 |
| At 30 June 2013 | (917,347) | (7,006) | 23,740 | 4,065 | (4,960) | (901,508) |

## 19 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

| | At 30 June 2013 RMB'000 | At 31 December 2012 RMB'000 |
|---|---|---|
| **Representing:** | | |
| Deferred tax assets | 25,684 | 20,240 |
| Deferred tax liabilities | (927,192) | (938,257) |
| | (901,508) | (918,017) |

## 20 SHARE CAPITAL

The share capital of the Group represents the issued capital of the Company at the end of the respective reporting periods.

Movements in the authorised share capital of the Company during the period are as follows:

| | Note | 2013 Number of shares (thousand) | 2013 Amount HK$('000) | 2012 Number of shares (thousand) | 2012 Amount HK$('000) |
|---|---|---|---|---|---|
| **Ordinary shares, authorised:** | | | | | |
| Ordinary shares of HK$0.10 each | | 20,000,000 | 2,000,000 | 20,000,000 | 2,000,000 |
| **Ordinary shares, issued and fully paid:** | | | | | |
| At 1 January | | 2,208,685 | 220,868 | 2,200,000 | 220,000 |
| Shares issued pursuant to pre-IPO employee share option scheme | (i) | 1,340 | 134 | 8,685 | 868 |
| At 30 June/31 December | | 2,210,025 | 221,002 | 2,208,685 | 220,868 |
| RMB equivalent ('000) | | | 188,774 | | 188,666 |

(i) During the period ended 30 June 2013, certain options were exercised to subscribe for 1,340,400 ordinary shares at HK$1.85, HK$2.47 and HK$3.07 respectively, with a total consideration of HK$2,647,000 (equivalent to RMB2,142,000), of which HK$134,000 (equivalent to RMB108,000) was credited to share capital. The excess of the total consideration over the par value of the shares, amounting to RMB2,034,000, was credited to share premium. RMB1,747,000 has been transferred from capital reserves to share premium.

## 21 COMMITMENTS

### (a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding at 30 June 2013 not provided for in the condensed consolidated financial statements were as follows:

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Contracted for | **19,819** | 66,186 |
| Authorised but not contracted for | **–** | – |
| | **19,819** | 66,186 |

### (b) Operating lease commitments

At 30 June 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| Within one year | **141,866** | 148,849 |
| After 1 year but within 5 years | **396,167** | 423,068 |
| After 5 years | **423,848** | 455,074 |
| | **961,881** | 1,026,991 |

The Group is the lessee in respect of a number of properties and land use rights held under operating leases. The leases typically run for an initial period between 1 and 20 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

## 22 CONTINGENT LIABILITIES

At 30 June 2013 and 31 December 2012, the Group did not have any significant contingent liabilities.

## 23 MATERIAL RELATED PARTY TRANSACTIONS

During the period ended 30 June 2013, the directors are of the view that the following individual/companies are related parties of the Group:

| Name of party | Relationship |
|---|---|
| Wang Muqing<br>王木清 | Controlling Shareholder |
| Hubei Shengze Industry Co., Ltd. ("Hubei Shengze")<br>湖北聖澤實業有限公司 | Controlled by the Controlling Shareholder |
| Beijing Baoze Automobile Technology Development Co., Ltd. ("Beijing Baoze Technology")<br>北京寶澤汽車科技發展有限公司 | Controlled by the Controlling Shareholder |
| Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd. ("Inner Mongolia Shengze Dingjie")<br>內蒙古聖澤鼎傑汽車貿易有限公司 | Controlled by the Controlling Shareholder |
| Changsha Shengze Ruibao Electronics Trading Co., Ltd. ("Changsha Shengze Ruibao")<br>長沙聖澤瑞寶電子產品貿易有限公司 | Controlled by the Controlling Shareholder |
| Wuhan Shengze Jieyun Trading Co., Ltd. ("Wuhan Jieyun")<br>武漢聖澤捷運貿易有限公司 | Controlled by the Controlling Shareholder |
| Wuhan Shengze Jiezhong Logistics Co., Ltd. ("Wuhan Jiezhong")<br>武漢聖澤捷眾物流有限公司 | Controlled by the Controlling Shareholder |

## 23 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Recurring transactions

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Rental expense:** | | |
| Hubei Shengze | **1,812** | 1,812 |
| Beijing Baoze Technology | **3,258** | 3,258 |
| Inner Mongolia Shengze Dingjie | **546** | 546 |
| Changsha Shengze Ruibao | **1,050** | 1,050 |
| Wuhan Jieyun | **3,150** | 3,150 |
| Wuhan Jiezhong | **750** | 750 |
| | **10,566** | 10,566 |

The Company's directors are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties and in the ordinary course of business.

### (b) Balances with related parties

As at the end of the respective reporting periods, the Group had the following balances with related parties:

| | **At 30 June 2013 RMB'000** | At 31 December 2012 RMB'000 |
|---|---|---|
| **Due from related parties:** | | |
| Hubei Shengze | **352** | – |
| Beijing Baoze Technology | **3,258** | – |
| Inner Mongolia Shengze Dingjie | **468** | – |
| Changsha Shengze Ruibao | **1,050** | – |
| Wuhan Jieyun | **3,150** | – |
| Wuhan Jiezhong | **750** | – |
| | **9,028** | – |

## 24 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company to be Joy Capital Holdings Limited, which was incorporated in the British Virgin Islands.

## BOARD OF DIRECTORS

### Non-executive Directors

Mr. Wang Muqing *(Chairman)*

### Executive Directors

Mr. Wang Kunpeng *(Chief Executive Officer)*
Mr. Li Zhubo *(Chief Financial Officer)*
Mr. Chen Tao *(Vice President)*
Mr. Shao Yong Jun *(Vice President)*

### Independent non-executive Directors

Dr. Wong Tin Yau, Kelvin
Mr. Tan Xiangyong
Mr. Zhang Yansheng

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## HEADQUARTERS

Baoze Plaza
No. 59 West Third-Ring South Road
Beijing
PRC

## PLACE OF BUSINESS IN HONG KONG

Unit 5905, 59/F
The Center
99 Queen's Road Central
Hong Kong

## WEBSITE ADDRESS

www.zhengtongauto.com

## COMPANY SECRETARY

Ms. Luo Xiao Jing

## AUTHORIZED REPRESENTATIVES

Mr. Shao Yong Jun
Ms. Luo Xiao Jing

## MEMBERS OF THE OPERATION AND MANAGEMENT COMMITTEE

Mr. Wang Kunpeng *(Chairman)*
Mr. Li Zhubo
Mr. Chen Tao
Mr. Shao Yong Jun
Mr. Li Yi
Mr. Wang Limin

## MEMBERS OF THE AUDIT COMMITTEE

Dr. Wong Tin Yau, Kelvin *(Chairman)*
Mr. Tan Xiangyong
Mr. Zhang Yansheng

## MEMBERS OF THE NOMINATION COMMITTEE

Mr. Zhang Yansheng *(Chairman)*
Mr. Shao Yong Jun
Mr. Tan Xiangyong

## MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Tan Xiangyong *(Chairman)*
Mr. Wang Kunpeng
Dr. Wong Tin Yau, Kelvin

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## CAYMAN ISLANDS SHARE REGISTRAR

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## PRINCIPAL BANKERS

China Construction Bank Corporation,
Hubei Branch
Bank of China, Wuhan Huaqiao Branch
China Merchants Bank, Wuhan Liberation Park Branch
China Everbright Bank Co., Ltd., Wuhan Branch
China Minsheng Banking Corp., Ltd., Transportation
Finance Strategic Business Unit
Bank of Communications, Wuhan Pacific Branch

## AUDITORS

KPMG
Certified Public Accountants

## HONG KONG LEGAL COUNSEL

Chiu & Partners
Solicitors

正 通

CHINA ZHENGTONG
AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

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