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

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

The board of directors (the “Board”) of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2015 together with the comparative figures for the corresponding period in 2014 as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended 30 June 2015 – unaudited**(Expressed in RMB'000)*

		Six months ended 30 June	
	<i>Note</i>	2015	2014
Revenue	4	13,870,277	15,609,267
Cost of sales		<u>(12,644,855)</u>	<u>(14,142,575)</u>
Gross profit		1,225,422	1,466,692
Other revenue	5	217,864	214,897
Other net income	5	37,920	37,190
Selling and distribution expenses		(373,904)	(401,328)
Administrative expenses		<u>(392,212)</u>	<u>(376,287)</u>
Profit from operations		715,090	941,164
Finance costs	6(a)	(226,420)	(226,005)
Share of profit of a joint venture		<u>5,655</u>	<u>12,638</u>
Profit before taxation	6	494,325	727,797
Income tax	7	<u>(141,915)</u>	<u>(219,271)</u>
Profit for the period		<u>352,410</u>	<u>508,526</u>
Attributable to:			
Equity shareholders of the Company		346,933	499,328
Non-controlling interests		<u>5,477</u>	<u>9,198</u>
Profit for the period		<u>352,410</u>	<u>508,526</u>
Earnings per share	8		
– Basic (RMB cents)		<u>15.7</u>	<u>22.6</u>
– Diluted (RMB cents)		<u>15.7</u>	<u>22.6</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015 – unaudited

(Expressed in RMB'000)

	<i>Note</i>	Six months ended 30 June	
		2015	2014
Profit for the period		352,410	508,526
Other comprehensive income for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
– financial statements of overseas subsidiaries		<u>80</u>	<u>2,014</u>
Other comprehensive income for the period		<u>80</u>	<u>2,014</u>
Total comprehensive income for the period		<u>352,490</u>	<u>510,540</u>
Attributable to:			
Equity shareholders of the Company		347,013	501,342
Non-controlling interests		<u>5,477</u>	<u>9,198</u>
Total comprehensive income for the period		<u>352,490</u>	<u>510,540</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015 – unaudited

(Expressed in RMB'000)

	<i>Note</i>	At 30 June 2015	At 31 December 2014
Non-current assets			
Property, plant and equipment		3,093,633	2,756,242
Lease prepayments		1,075,079	1,084,915
Receivables from financial services		265,036	–
Intangible assets		3,837,617	3,875,351
Goodwill		1,926,551	1,926,551
Interest in a joint venture		192,427	186,772
Interest in an associate		3,200	3,200
Deferred tax assets		89,987	67,180
		10,483,530	9,900,211
Current assets			
Inventories	10	3,517,471	4,346,017
Trade and other receivables	11	4,795,270	4,807,401
Receivables from financial services		176,260	–
Pledged bank deposits	12	1,461,687	1,662,771
Time deposits		31,207	31,207
Cash and cash equivalents	13	1,228,538	1,435,083
		11,210,433	12,282,479
Current liabilities			
Loans and borrowings	14	4,405,506	4,347,831
Trade and other payables	15	5,069,397	5,826,051
Income tax payables		853,712	776,580
		10,328,615	10,950,462
Net current assets		881,818	1,332,017
Total assets less current liabilities		11,365,348	11,232,228

	<i>Note</i>	At 30 June 2015	At 31 December 2014
Non-current liabilities			
Bonds payable		2,032,279	2,031,803
Deferred tax liabilities		895,596	903,317
		<u>2,927,875</u>	<u>2,935,120</u>
NET ASSETS		<u>8,437,473</u>	<u>8,297,108</u>
Capital and reserves			
Share capital		188,788	188,776
Reserves		8,141,632	7,983,299
Total equity attributable to shareholders of the Company		8,330,420	8,172,075
Non-controlling interests		107,053	125,033
TOTAL EQUITY		<u>8,437,473</u>	<u>8,297,108</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENT

1 GENERAL INFORMATION

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

The Company and its subsidiaries (collectively, the “Group”) are principally engaged in 4S dealership business, motor-related logistics business and lubricant oil trading business in the People’s Republic of China (the “PRC”).

2 BASIS OF PREPARATION

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

The financial information relating to the financial year ended 31 December 2014 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 2014 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those statutory financial statements in their report dated 30 March 2015.

3 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contribution*
- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

4 REVENUE

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

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

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Sales of passenger motor vehicles	11,910,113	13,777,980
Sales of motor spare parts	423,314	358,586
Provision of maintenance services	1,261,907	1,183,413
Provision of logistics services	143,408	138,309
Sales of lubricant oil	129,094	150,979
Interest from the financial services	2,441	–
	<u>13,870,277</u>	<u>15,609,267</u>

5 OTHER REVENUE AND NET INCOME

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
<i>Other revenue:</i>		
Commission income	204,525	197,646
Interest income from bank deposits	12,431	13,769
Others	908	3,482
	<u>217,864</u>	<u>214,897</u>
<i>Other net income:</i>		
Net gain on disposal of property, plant and equipment	23,093	28,343
Others	14,827	8,847
	<u>37,920</u>	<u>37,190</u>

6 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
	<i>Note</i>		
(a) Finance costs:			
Interest on loans and borrowings wholly repayable			
within 5 years		229,831	220,428
Other finance costs	<i>(i)</i>	19,989	24,029
Less: interest capitalised		(23,400)	(18,452)
		226,420	226,005
(b) Staff costs:			
Salaries, wages and other benefits		276,840	281,970
Contributions to defined contribution retirement plans	<i>(ii)</i>	23,333	19,586
Equity settled share-based transactions		–	(145)
		300,173	301,411

(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.

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	
		2015	2014
		RMB'000	RMB'000
(c) Other items:			
Cost of inventories		12,439,851	13,956,178
Depreciation		114,649	113,696
Amortisation of lease prepayments		11,362	4,094
Amortisation of intangible assets		50,321	49,455
Operating lease charges		130,673	112,278
Net foreign exchange (gain)/loss		(7,841)	19,361

7 INCOME TAX

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

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Current tax:		
Provision for PRC income tax for the period	172,443	251,489
Deferred tax:		
Origination of temporary differences	(30,528)	(32,218)
	<u>141,915</u>	<u>219,271</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) No provision for Hong Kong Profits Tax was made for the Group's subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the period. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.
- (iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25%.

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

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2015 is based on the profit attributable to shareholders of the Company for the six months of RMB346,933,000 (30 June 2014: RMB499,328,000) and the weighted average number of ordinary shares of 2,210,106,794 (30 June 2014: 2,210,050,440) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2015 is based on the profit attributable to ordinary equity shareholders of the Company of RMB346,933,000 (30 June 2014: RMB499,328,000) and the weighted average number of ordinary shares of 2,213,719,040 (30 June 2014: 2,213,673,760) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme.

Weighted average number of shares (diluted)

	Six months ended 30 June	
	2015	2014
	Number of shares	Number of shares
Weighted average number of ordinary shares	2,210,106,794	2,210,050,440
Effect of deemed issue of shares under the pre-IPO employee share option scheme	3,612,246	3,623,320
	<u>2,213,719,040</u>	<u>2,213,673,760</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,213,719,040</u>	<u>2,213,673,760</u>

9 SEGMENT REPORTING

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

4 Auto financial service business

Auto financial service business mainly includes providing financial services to auto customers and dealers.

As none of logistics business, lubricant oil business or auto financial service 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 "Other businesses".

(a) Information about profit or loss, assets and liabilities

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

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

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

	4S dealership business		Other businesses		Total	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Revenue from external customers	13,595,334	15,319,979	274,943	289,288	13,870,277	15,609,267
Inter-segment revenue	–	–	7,873	8,835	7,873	8,835
Reportable segment revenue	13,595,334	15,319,979	282,816	298,123	13,878,150	15,618,102
Reportable segment profit	454,992	719,608	14,489	10,924	469,481	730,532
Depreciation and amortisation for the period	172,558	163,389	3,774	3,856	176,332	167,245
Reportable segment assets as at 30 June 2015/31 December 2014	13,221,656	14,175,365	3,321,929	2,707,641	16,543,585	16,883,006
Additions to non-current segment assets during the period	629,001	543,310	18,247	2,193	647,248	545,503
Reportable segment liabilities as at 30 June 2015/ 31 December 2014	(10,328,861)	(11,095,383)	(1,955,985)	(1,920,967)	(12,284,846)	(13,016,350)
Investment in a joint venture/ an associate as at 30 June 2015/ 31 December 2014	–	–	195,627	189,972	195,627	189,972

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

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Reportable segment profit	469,481	730,532
Unallocated head office expenses	(4,520)	(28,817)
Other revenue	217,864	214,897
Other net income	37,920	37,190
Finance costs	(226,420)	(226,005)
	<u>494,325</u>	<u>727,797</u>

(c) **Geographic information**

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

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

	At 30 June	At 31 December
	2015 RMB'000	2014 RMB'000
Assets:		
Reportable segment assets	16,543,585	16,883,006
Intangible assets	3,837,617	3,875,351
Goodwill	1,926,551	1,926,551
Deferred tax assets	89,987	67,180
Unallocated head office assets	77,046	244,369
Elimination of inter-segment receivables	(780,823)	(813,767)
	<u>21,693,963</u>	<u>22,182,690</u>
Liabilities:		
Reportable segment liabilities	(12,284,846)	(13,016,350)
Income tax payables	(853,712)	(776,580)
Deferred tax liabilities	(895,596)	(903,317)
Unallocated head office liabilities	(3,159)	(3,102)
Elimination of inter-segment payables	780,823	813,767
	<u>(13,256,490)</u>	<u>(13,885,582)</u>

10 INVENTORIES

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Motor vehicles	3,268,003	4,053,604
Motor spare parts	234,030	277,753
Others	15,438	14,660
	<u>3,517,471</u>	<u>4,346,017</u>

11 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 3 months	465,256	521,724
Over 3 months but within 1 year	22,127	31,899
Over 1 year	5,544	1,430
Trade debtors and bills receivable, net of allowance for doubtful debts	492,927	555,053
Prepayments	609,324	724,234
Other receivables and deposits	3,692,056	3,528,114
Amount due from third parties	4,794,307	4,807,401
Amount due from related parties	963	–
Trade and other receivables	<u>4,795,270</u>	<u>4,807,401</u>

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

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

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

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

12 PLEDGED BANK DEPOSITS

Guarantee deposits in respect of:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Bank loans	295,349	241,804
Bills payable	1,015,338	1,269,967
Standby letter of credit	151,000	151,000
	<u>1,461,687</u>	<u>1,662,771</u>

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

13 CASH AND CASH EQUIVALENTS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Deposit with banks within 3 months of maturity	14,162	32,652
Cash at banks and in hand	1,214,376	1,402,431
	<u>1,228,538</u>	<u>1,435,083</u>

Cash and cash equivalents in the statements of financial position

14 LOANS AND BORROWINGS

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Unsecured bank loans	2,982,500	2,590,800
Unsecured borrowings from other financial institutions	–	350,000
Unsecured short-term commercial paper	750,000	750,000
	<u>3,732,500</u>	<u>3,690,800</u>
Secured bank loans	230,951	188,328
Secured borrowings from other financial institutions	110,135	136,490
	<u>4,073,586</u>	<u>4,015,618</u>
Secured long-term bank loans repayable within 1 year	<u>331,920</u>	<u>332,213</u>
	<u>4,405,506</u>	<u>4,347,831</u>

15 TRADE AND OTHER PAYABLES

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 3 months	3,958,552	4,787,976
Over 3 months but within 6 months	126,556	146,156
Over 6 months but within 12 months	4,053	1,818
	<hr/>	<hr/>
Total creditors and bills payable	4,089,161	4,935,950
Receipts in advance	395,817	442,894
Other payables and accruals	584,419	447,207
	<hr/>	<hr/>
Trade and other payables	5,069,397	5,826,051
	<hr/>	<hr/>

16 CONTINGENT LIABILITIES

As of 30 June 2015, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China is set to achieve a 7.0% year-on-year (yoy) growth in gross domestic product (GDP) for the first half of 2015¹, with further growth in household disposable income and further developments in urbanization. Number of passenger vehicle's ownership continued to increase steadily. However, China's automobile market witnessed a slower growth in the first half of 2015 than previous years. The sales volume of the major automobile brands in China in terms of market share in the first half of 2015 are as following²: the sales volume of Audi branded automobiles reached 274,000 with 1.9% yoy growth; the sales volume of BMW branded automobiles reached 231,000 with 2.5% yoy growth; the sales volume of Benz branded automobiles achieved 165,000 with 21.6% yoy growth; the sales volume of Porsche branded automobiles reached 29,000 with 48.4% yoy growth; and the sales volume of Cadillac branded automobiles reached 39,000 with 14% yoy growth. Jaguar & Land Rover and Volvo among the luxury brands recorded a negative growth for the first half of 2015, with Jaguar and Land Rover branded automobiles selling 45,000 units at a 27.3% yoy decrease and Volvo 38,000 units at a 1.2% yoy decrease. The lower than expected demand for automobiles led to a deeper price discount and higher inventory level among automobile dealers. Since the second quarter, major OEMs started to revise down annual targets and roll out more marketing campaigns to adapt to the current market demand. Auto dealers strived to maintain effective communication with OEMs, and proactively explored their own competitive advantages and new growth drivers to transform own business models.

The Group was fully dedicated to its prudent operation strategy under challenging market conditions during the first year and managed to achieve its planned sales target on new cars and maintained a strong growth in the after-sales services. The Group actively explored a variety of business opportunities to further diversify further growth driver and maximize business potentials on current customer base. The future of our business lies in high-quality, personalized and integrated services. The Group's diversified premium brands portfolio and corresponding customer base, its nationwide dealership network, its well-rounded sales and services platform, as well as its emerging innovative business segments, will allow the Company to deliver superior and unique customer experience through our first-in-class automobile services platform.

¹ National Bureau of Statistics of the PRC:
http://www.stats.gov.cn/tjsj/zxfb/201507/t20150716_1215900.html

² China Association of Automobile Manufacturers: <http://www.caam.org.cn/hangye/20150724/1405166585.html>

BUSINESS REVIEW

The Group has been persistently focusing on the sales of luxury and ultra-luxury branded automobiles, and devoted a great effort to develop the traditional after-sales services and the emerging extended services in 2015. For the six months ended 30 June 2015, the Group recorded a revenue of approximately RMB13,870 million, representing a decrease of approximately 11.1% compared to the same period in 2014. Gross profit was approximately RMB1,225 million, representing a year-on-year decline of approximately 16.4%. Profit attributable to shareholders of the Company was RMB347 million with basic earnings per share at approximately RMB15.7 cents.

Adopting Prudent Sales Strategy in Perplexing Market Environment

In the first half of 2015, the Group sold 40,157 automobiles in aggregate, including 27,544 luxury and ultra-luxury branded automobiles. Weakened demand for automobiles combined with relatively substantial fluctuation in price and a number of macro-economic factors have further pushed certain automobile consumers to put their purchase plans temporarily on hold. Automobile dealers continued to explore more healthy business relationship with automobile manufacturers in the first half of 2015 aiming for a sustainable long term growth. In the first half of 2015, the Group's gross margin generated from new car sales improved marginally compared with the second half of 2014. In future, the Group will make greater efforts in securing reasonable profitability from sales channels for new cars.

Providing Tailor-made After-sales Services Focusing on Customers' Experience

After-sales services business is one of the Group's core businesses and there is enormous room for growth in automobile aftermarket. The Group continued to maintain robust growth in the number of units serviced on the back of its ongoing focus on customer retention and service quality and vigorous efforts to develop regular maintenance services and new services, such as warranty renewal and extension. The Group benefitted from favorable policy changes on spare parts to further enhance its capability of developing and competitiveness in after-sales services, thus maintaining the gross profit of after-sales services at a higher level. Since the second half of 2014, OEMs have significantly reduced the prices of spare parts and accessories, and would possibly further reduce in the future, which will result in a decrease in the average price per unit. The Group is of the opinion that more reasonable prices of spare parts and accessories will elevate the loyalty of customers to luxury brands as well as the Group's competitiveness.

Differential Competitive Advantages Generated by Automobile Financing and Supply Chain Business

In the first half of 2015, the Group achieved significant breakthrough in automobile financing. Shanghai Dongzheng Automotive Finance Co., Ltd. (上海東正汽車金融有限責任公司) (“AFC”), a majority-owned subsidiary of the Company, was officially established in April 2015 and commenced business on 20 April 2015. Since then the AFC has achieved rapid growth and outstanding results, leveraging the Group’s multi-brand, nationwide dealer network for luxury and high-market brands and its fast expanding external dealer distribution channels, as well as the Group’s deep understanding of customer needs in the auto finance sector and its strategy of product differentiation. As of 30 June 2015, AFC had provided auto finance with a total amount over RMB600 million. The fast growth of AFC signifies a brand new stage of development for the Group’s auto finance business of the Group, which is set to become an important niche for profit growth.

The Group’s automobile supply chain business enjoyed a cutting-edge and comprehensive logistics management system with national “5A” logistic enterprise qualifications. Its service covers the entire automobile logistic supply chain, ranging from procurement logistics, production logistics, distribution processing, sales logistics, lubricant oil trading to consulting service relating to logistics. It primarily services leading premium auto brands manufacturers in 25 provinces and municipalities in China. Given the enormous potential of the logistic business for future growth, the Company is committed to developing a leading independent platform for automobile logistics in China to provide value-added services across the entire automobile supply chain.

Rapid Expansion of Extended Services through Economies of Scale

The extended services, including automobile financing, insurance brokerage and trading of pre-owned automobiles, play an essential part in the Group’s value-added service offering. In the first half of 2015, the Group’s dealership stores teamed up with AFC to further enhance Group’s auto financing penetration rate of new cars leveraging the financial policies of manufacturers. In the second half of the year, the Group will continue to increase the effect of financial policies on sales and marketing, capitalizing fully on the cooperation with AFC and other financial institutions to drive rapid growth in new car sales and further realize synergies among various business segments. On insurance brokerage, the Group continued to increase penetration of insurance renewal while securing the penetration of new policies, with active efforts in new product development. Currently, the Group maintains a steady new policy penetration rate of over 90%. Meanwhile, the Group endeavored to develop trading of pre-owned automobiles mainly through its own platform by integrating our advantage resources, including automobile financing, supply chain and after-sales services, establishing a professional platform for trading of pre-owned automobiles with huge room for growth in future.

To ensure successful implementation of the Group’s business diversification, upgrade and transformation, we have initiated comprehensive upgrade on our information management system leveraging the technical superiority of the Mobile Internet to facilitate full sharing and integration of internal Group resources and information, a flattened staff management structure, more transparent customer-interactive information and higher individual and overall servicing efficiency, with a view to genuinely accelerating the organizational and servicing transformation of the Group and fostering core competitive strengths.

Sustaining Optimization and Moderate Expansion of Well-balanced Nationwide Dealership Network of Luxury Branded Automobiles in terms of Brands and Geographical Distribution

As a leading 4S dealership group in China, the Group has been focusing on luxury and ultra-luxury branded automobiles, such as BMW, MINI, Audi, Jaguar and Land Rover, Volvo, Benz, Imported Volkswagen, Cadillac, Infiniti and Porsche. In addition, the Group has also been operating dealership stores of middle market brands, such as FAW Volkswagen, Buick, Nissan, Hyundai and Honda.

Standing on the Group's prospective strategic network planning in developed regions and fast growing provinces in China over years, the Group has established a nationwide dealership network for luxury brands which is well-balanced in terms of brand portfolio and geographic location. In addition to the affluent first-tier cities and regions, our existing dealership network covering major core luxury brands has effectively expanded to second and third-tier cities and regions with low automobile penetration and high potential for rapid growth.

As at the date of this announcement, the Group operated 106 dealership stores in 37 cities across 15 provinces and municipalities in China. In the first half of 2015, the Group had 4 newly operating stores for luxury branded automobiles, namely Yichun BMW 4S store, Langfang Jaguar and Land Rover 4S store, Tongzhou Volvo 3S store and Baotou MINI repair service center. In addition, there were up to 30 dealership stores under development or to be developed which were authorized to the Group by major luxury brands of automobiles, such as BMW, Audi, Jaguar and Land Rover as well as Volvo. The authorized new projects located in first tier cities, such as Beijing, Shanghai, Guangzhou, Shenzhen, and regions with potential for rapid development, such as Chongqing, Shandong, Hebei, Henan, Hubei, Hunan and Guangdong. With the further expansion of scale and the advantage of sales channels, the quality of the Group's network will be further enhanced. Looking ahead, the Group will discreetly expand its dealership network by responding to market changes and developing new business model.

In addition to moderate expansion of our dealership network, the Group has continued to optimize its existing stores for a more reasonable structure, allowing hardware facilities and workflows for optimal customers' experience in a new market condition. In the first half of 2015, the Group completed upgrade and conversion of 7 dealership stores under the brands of Benz, Land Rover, Volvo, Infiniti and Porsche, and commenced upgrade and conversion of some of other dealership stores. Sustained optimization has significantly enhanced the overall quality and competitiveness of our dealership network.

By establishing strategic cooperation with leading manufacturers of luxury and ultra-luxury branded automobiles in China, the quality of existing network, the quantity and quality of newly authorized stores of the Group have been adequately safeguarded. All the authorized stores under development and to be developed were for luxury and ultra-luxury branded automobiles, which will further strengthen the Group's regional advantages. Our newly planned stores will develop synergy with our existing dealership network. In the second half of 2015, the Group will focus on the moderate expansion of major luxury brands' dealership stores and ongoing optimization of our existing dealership network in order to keep up momentum for the Group's overall operation and all extended services business.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2015, the Group recorded a revenue of approximately RMB13,870 million, representing a decrease of approximately 11.1% as compared to the revenue of approximately RMB15,609 million in the first half of 2014. The decrease was mainly due to the slowdown of market growth of new passenger motor vehicles in China in the first half of 2015.

Sources of revenue	For the six months ended 30 June			
	2015		2014	
	Revenue (RMB'000)	Contribution (%)	Revenue (RMB'000)	Contribution (%)
Sales of new automobiles	11,910,113	85.9	13,777,980	88.3
After-sales services	1,685,221	12.1	1,541,999	9.9
Logistics and lubricant oil	272,502	2.0	289,288	1.8
Interest income from financial loans	2,441	0.0	–	0.0
Total	13,870,277	100.0	15,609,267	100.0

Revenues of the Group were derived from the sales of new automobiles, the after-sales services and other business, among which the weight of the after-sales services continued to increase steadily. In the first half of 2015, revenue from the sales of new automobiles amounted to approximately RMB11,910 million, representing a decrease of approximately 13.6% as compared to approximately RMB13,778 million in the first half of 2014, and accounted for approximately 85.9% of the total revenue in the first half of 2015. Revenue from the after-sales services business was approximately RMB1,685 million, representing a growth of approximately 9.3% as compared to approximately RMB1,542 million in the first half of 2014. In the first half of 2015, revenue from luxury and ultra-luxury branded automobiles decreased by approximately 15.3% to RMB10,322 million from approximately RMB12,193 million in the first half of 2014, accounting for 86.7% of revenue from the sales of new automobiles. In the first half of 2015, revenues from the sales of new automobiles and the after-sales services business accounted for 85.9% and 12.1% of our total revenue respectively, representing an increase of 2.2 percentage points in revenue from the after-sales services business.

Cost of Sales

For the six months ended 30 June 2015, the Group's cost of sales decreased by approximately 10.6%, which was in line with a decrease in revenue, to approximately RMB12,645 million as compared to approximately RMB14,143 million in the first half of 2014. In the first half of 2015, the cost of sales for new automobiles decreased by approximately 11.7% to approximately RMB11,524 million from approximately RMB13,056 million in the first half of 2014. The decrease in cost of sales for new automobiles slightly lower than the decrease in revenue from sales of new automobiles was mainly caused by the slowdown of market

growth of new passenger motor vehicles. Cost of the after-sales services business increased by approximately 5.9% to approximately RMB880 million from approximately RMB831 million in the first half of 2014. In the after-sales services business segment, the increase in revenue is slightly higher than the increase in cost of sales, which was mainly caused by a further enhancement in cost control of the after-sales business segment, as well as a further growth in gross profit margin attributed to the after-sales business of our newly established stores which has in turn become more mature.

Gross Profit

For the six months ended 30 June 2015, the Group's gross profit decreased by approximately 16.4% to RMB1,225 million from approximately RMB1,467 million in the first half of 2014, and the Group's gross profit margin decreased by 0.6 percentage point to 8.8% from 9.4% in the first half of 2014.

The Group's gross profit was principally generated from after-sales services and sales of new automobiles business. In the first half of 2015, gross profit of sales of new automobiles was approximately RMB386 million, representing a decrease of 46.5% as compared to the same period in 2014; gross profit margin of sales of new automobiles decreased by 2 percentage points to 3.2% from 5.2% in the first half of 2014. In particular, gross profit of sales of luxury and ultra-luxury branded automobiles decreased by approximately 48.1% to approximately RMB363 million. Gross profit margin of sales of luxury and ultra-luxury branded automobiles decreased to 3.5% from 5.7% in the first half of 2014.

In the first half of 2015, gross profit of our after-sales services business was approximately RMB805 million, representing an increase of approximately 13.2% as compared to same period last year; and gross profit margin of after-sales services business increased by 1.7 percentage points to 47.8% from 46.1% in the first half of 2014.

Selling and distribution expenses

For the six months ended 30 June 2015, the Group's selling and distribution expenses decreased by approximately 6.7% to approximately RMB374 million from approximately RMB401 million in the first half of 2014. Such decrease was primarily due to a decrease in sales of new automobiles.

Administrative expenses

For the six months ended 30 June 2015, the Group's administrative expense increased by approximately 4.3% to approximately RMB392 million from approximately RMB376 million in the first half of 2014. Such an increase was mainly caused by provisions for new dealership stores.

Profit from operations

For the six months ended 30 June 2015, the Group's profit from operations decreased by approximately 24.0% to approximately RMB715 million from approximately RMB941 million in the first half of 2014, and the operating profit margin was approximately 5.2%, representing a decrease of 0.8 percentage point over 6.0% in the first half in 2014.

Income tax expenses

For the six months ended 30 June 2015, the Group's income tax expenses amounted to approximately RMB142 million and the effective tax rate was approximately 28.7%.

Profit for the period

For the six months ended 30 June 2015, the Group's profit for the period decreased by approximately 30.8% to approximately RMB352 million from approximately 509 million in the first half of 2014. During the period, net profit margin was decreased by approximately 0.8 percentage point to approximately 2.5% from 3.3% in the first half of 2014.

Interim dividend

The board of directors of the Company resolved not to declare the payment of an interim dividend for the six months ended 30 June 2015.

Contingent liabilities

As at 30 June 2015, the Group has no material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 30 June 2015, the Group's current assets amounted to approximately RMB11,210 million, representing a decrease of RMB1,072 million as compared to the current assets of approximately RMB12,282 million as at 31 December 2014. Such a decrease was mainly due to a decrease in the appropriation of capital in the inventories of new automobiles based upon market demand.

As at 30 June 2015, the Group's current liabilities amounted to approximately RMB10,329 million, representing a decrease of approximately RMB621 million as compared to the current liabilities of approximately RMB10,950 million as at 31 December 2014. Such a decrease was mainly due to a decrease in the use of notes payable.

Cash Flow

As at 30 June 2015, the Group had cash and cash equivalents amounting to approximately RMB1,229 million, representing a decrease of approximately RMB206 million over approximately RMB1,435 million as at 31 December 2014. The Group's transactions and monetary assets are principally conducted in RMB. In the first half of 2015, the Group's working capital or liquidity did not face any material difficulties or material impacts as a result of 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 the 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 2015, the Group had net cash inflow of approximately RMB713 million used for its operating activities (six months ended 30 June 2014: net cash outflow of approximately RMB225 million).

Capital expenditure and investment

For the six months ended 30 June 2015, the Group's capital expenditure and investment were approximately RMB660 million.

INVESTMENT IN A JOINT VENTURE

For the six months ended 30 June 2015, the profit contribution from Guangzhou Fengshen Logistics Co., Ltd, a joint venture of the Group was approximately RMB5.7 million (for the six months ended 30 June 2014: approximately RMB12.6 million). As at 30 June 2015, The Group's interest in the joint venture was approximately RMB192.4 million (31 December 2014: approximately RMB186.8 million).

Inventories

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 RMB4,346 million as at 31 December 2014 to approximately RMB3,517 million as at 30 June 2015, which was primarily attributable to a decrease in the appropriation of capital in the inventories of new automobiles based upon market demand.

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

	For the six months ended 30 June (day)	
	2015	2014
Average inventory turnover days	<u>56.0</u>	<u>36.7</u>

Exchange risks

The Group conducts its business primarily in Renminbi. Certain bank deposit, bank loans and credit enhanced bonds were denominated in foreign currencies. However, the Group's operating cash flow and liquidity has not been subject to significant influence from fluctuation in exchange rate. Nevertheless, the Group will closely monitor currency fluctuations and will consider hedging these exposures should the need arise.

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided principal banks. As at 30 June 2015, the Group's cash and bank deposits were approximately RMB2,722 million (including: restricted bank deposits of approximately RMB1,493 million and cash and cash equivalents of approximately RMB1,229 million), representing a decrease of approximately RMB407 million, from approximately RMB3,129 million as at 31 December 2014. As at 30 June 2015, loans and borrowings and bonds payable of the Group amounted to approximately RMB6,438 million (31 December 2014: approximately RMB6,380 million). As at 30 June 2015, the Group's loans and borrowings are repayable within one year and the bonds payable will mature on 16 June 2018. Save as loans and borrowings of approximately RMB2,645 million and the bonds payable that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. Net gearing ratio of the Group as at 30 June 2015 was 44.0% (31 December 2014: 39.2%). Net gearing ratio was calculated as loans and borrowings and bonds payable less cash and bank deposits divided by owner's equity.

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 2015, the pledged assets of the Group amounted to approximately RMB3,880 million (31 December 2014: approximately RMB4,364 million).

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the six months ended 30 June 2015, there was no material acquisition or disposal of subsidiaries or associated companies by the Group.

Investments held in foreign currency and hedging

For the six months ended 30 June 2015, 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 2015, the Group had a total of 8,784 employees in China (31 December 2014: 8,977 employees). The staff costs incurred for the six months ended 30 June 2015 was approximately RMB300.2 million (for the six months ended 30 June 2014: approximately RMB301.4 million). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provided good working environment and diversified training program. The Company has adopted share option schemes and a restricted share award scheme for granting shares to eligible employees as incentives or rewards for the contribution to the Group.

Outlook and Strategy

After years of quick expansion, the auto market in china has become more matured with both new challenges and great opportunities ahead. The Group is dedicated to developing a service-based and more well round platform to address customers' ever growing demand associated with cars with distinctive value proposition. In the second half of 2015, the Group shall put more resources on automobile financing business and develop differential and competitive financing solutions. We are confident that our auto financing business shall grow tremendously and significantly promote our other business segments through effective cross-selling substantially. The Group shall make better use of information technology and establish a leading information exchange system in the industry to strengthen effective interaction among staff and customers for further enhancement of customers' loyalty and satisfaction. For network development, the Group will continue to maintain a low-cost and comprehensive development strategy to complement its existing network on a selective basis. In the meantime, the Group will continue to enhance management efficiency, reinforce rigorous cost control, and boost team morale with a reasonable incentive system. The Group will endeavor to build up a high-quality and one-stop automobile services platform for our premium customers.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the "Audit Committee") comprises three members, of which all are independent non-executive Directors, namely Dr. Wong Tin Yau, Kelvin (the chairman of the Audit Committee), Mr. Zhao Chunjun and Mr. Chang Xiuze.

An Audit Committee meeting was held on 21 August 2015 to review the unaudited interim financial statements for six months ended 30 June 2015. KPMG, the Group's external auditor, has carried out a review of the unaudited interim financial statements for the six months ended 30 June 2015 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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

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 2015.

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Company had complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2014.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code (“Securities Dealing Code”) regarding securities transactions of the directors with standards no less exacting than that of the Model Code. In response to a specific enquiry by the Company, all Directors confirmed that they had complied with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2015.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.zhengtongauto.com>) and the interim report for the six months ended 30 June 2015 of the Company containing all the information required by the Listing Rules will be dispatched to the Company’s shareholders and published on the above websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management team and employees for their commitment and diligence, and would also like to thank our shareholders and business associates for their strong support to the Group.

For and on behalf of the Board of Directors of
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
Wang Muqing
Chairman

30 August 2015

As at the date of this announcement, the Board comprises Mr. Wang Muqing (Chairman), Mr. WANG Kunpeng (Chief Executive Officer), Mr. LI Zhubo, Mr. CHEN Tao and Mr. SHAO Yong Jun as Executive Directors; and Dr. WONG Tin Yau, Kelvin, Mr. ZHAO Chunjun and Mr. CHANG Xiuze as Independent Non-executive Directors.