正通

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 2016

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 2016 together with the comparative figures for the corresponding period in 2015 as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2016 – unaudited
(Expressed in RMB'000)

		Six months ended 30 June	
	Note	**2016**	2015
Revenue	*4*	**14,596,154**	13,870,277
Cost of sales		**(13,251,859)**	(12,644,855)
Gross profit		**1,344,295**	1,225,422
Other revenue	*5*	**186,209**	217,864
Other net income	*5*	**28,876**	37,920
Selling and distribution expenses		**(441,172)**	(373,904)
Administrative expenses		**(484,504)**	(392,212)
Profit from operations		**633,704**	715,090
Finance costs	*6(a)*	**(257,923)**	(226,420)
Share of profit of joint venture and associates		**8,297**	5,655
Profit before taxation	*6*	**384,078**	494,325
Income tax	*7*	**(123,726)**	(141,915)
Profit for the period		**260,352**	352,410
Attributable to:			
Equity shareholders of the Company		**253,347**	346,933
Non-controlling interests		**7,005**	5,477
Profit for the period		**260,352**	352,410
Earnings per share	*8*		
– Basic (RMB cents)		**11.5**	15.7
– Diluted (RMB cents)		**11.5**	15.7

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 – unaudited
(Expressed in RMB'000)

	Note	**Six months ended 30 June** **2016**	2015
Profit for the period		**260,352**	352,410
Other comprehensive income for the period (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
– financial statements of entities outside the People's Republic of China		**(4,603)**	80
Other comprehensive income for the period		**(4,603)**	80
Total comprehensive income for the period		**255,749**	352,490
Attributable to:			
Equity shareholders of the Company		**248,744**	347,013
Non-controlling interests		**7,005**	5,477
Total comprehensive income for the period		**255,749**	352,490

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2016 – unaudited
(Expressed in RMB'000)

	Note	**At 30 June 2016**	At 31 December 2015
Non-current assets			
Property, plant and equipment		**3,591,057**	3,428,069
Lease prepayments		**1,055,952**	1,067,350
Intangible assets		**3,739,771**	3,789,357
Goodwill		**1,926,551**	1,926,551
Interest in a joint venture		**225,773**	217,314
Interest in associates		**23,038**	3,200
Deferred tax assets		**127,628**	113,208
Receivables from financial services	*12*	**1,746,958**	704,353
Other financial assets		**47,632**	27,041
Other non-current assets		**12,467**	–
		12,496,827	11,276,443
Current assets			
Inventories	*10*	**3,659,438**	3,193,735
Trade and other receivables	*11*	**5,417,806**	5,294,363
Pledged bank deposits and balances with central bank		**1,597,793**	1,481,308
Cash and cash equivalents	*13*	**1,070,258**	1,599,117
Receivables from financial services	*12*	**826,299**	834,684
		12,571,594	12,403,207
Current liabilities			
Loans and borrowings for financial services	*14*	**2,459,596**	1,169,500
Loans and borrowings for non-financial services	*14*	**5,018,440**	4,481,582
Trade and other payables	*15*	**4,789,207**	5,132,648
Income tax payables		**1,000,672**	972,331
		13,267,915	11,756,061
Net current (liabilities)/assets		**(696,321)**	647,146
Total assets less current liabilities		**11,800,506**	11,923,589

	Note	At 30 June 2016	At 31 December 2015
Non-current liabilities			
Loans and borrowings for financial services	*14*	**–**	188,000
Bonds payable		**2,209,872**	2,158,071
Deferred tax liabilities		**878,860**	888,180
Other non-current liabilities		**4,038**	–
		3,092,770	3,234,251
NET ASSETS		**8,707,736**	8,689,338
Capital and reserves			
Share capital		**188,788**	188,788
Reserves		**8,440,466**	8,399,844
Total equity attributable to shareholders of the Company		**8,629,254**	8,588,632
Non-controlling interests		**78,482**	100,706
TOTAL EQUITY		**8,707,736**	8,689,338

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION

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

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

2 BASIS OF PREPARATION

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 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 2015 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 2015 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 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those statutory financial statements in their report dated 24 March 2016.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group.

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS1, *Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the group's interim financial report as the group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

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 financial services. Revenue represents the sales of goods, services income rendered to customers and interest income.

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Sales of passenger motor vehicles	**12,400,453**	11,910,113
Sales of motor spare parts	**348,847**	423,314
Provision of maintenance services	**1,370,267**	1,261,907
Provision of logistics services	**188,674**	143,408
Sales of lubricant oil	**111,211**	129,094
Interest and service income from financial services	**176,702**	2,441
	14,596,154	13,870,277

5 OTHER REVENUE AND NET INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Other revenue:		
Commission income	**171,688**	204,525
Interest income from bank deposits	**13,678**	12,431
Others	**843**	908
	186,209	217,864
Other net income:		
Net gain on disposal of property, plant and equipment	**11,509**	23,093
Net gain on derivative financial instruments	**9,521**	–
Others	**7,846**	14,827
	28,876	37,920

6 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
	Note	**2016**	2015
		RMB'000	*RMB'000*
(a) Finance costs:			
Interest on loans and borrowings and bonds payable		**247,287**	229,831
Other finance costs	*(i)*	**26,631**	19,989
Less: interest capitalised		**(15,995)**	(23,400)
		257,923	226,420
(b) Staff costs:			
Salaries, wages and other benefits		**327,218**	276,840
Contributions to defined contribution retirement plans	*(ii)*	**23,732**	23,333
		350,950	300,173

(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	
		2016	2015
		RMB'000	*RMB'000*
(c)	**Other items:**		
	Cost of inventories	**13,011,828**	12,439,851
	Cost of interests*	**65,842**	108
	Depreciation	**143,334**	114,649
	Amortisation of lease prepayments	**11,398**	11,362
	Amortisation of intangible assets	**50,747**	50,321
	Operating lease charges	**154,894**	130,673
	Net foreign exchange loss/(gain)	**48,175**	(7,841)

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

7 INCOME TAX

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Current tax:		
Provision for PRC income tax for the period	**147,466**	172,443
Deferred tax:		
Origination of temporary differences	**(23,740)**	(30,528)
	123,726	141,915

(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 2016 is based on the profit attributable to shareholders of the Company for the six months of RMB253,347,000 (30 June 2015: RMB346,933,000) and the weighted average number of ordinary shares of 2,210,200,440 (30 June 2015: 2,210,106,794) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2016 is based on the profit attributable to ordinary equity shareholders of the Company of RMB253,347,000 (30 June 2015: RMB346,933,000) and the weighted average number of ordinary shares of 2,212,507,194 (30 June 2015: 2,213,719,040) 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	
	2016	2015
	Number of shares	*Number of shares*
Weighted average number of ordinary shares	**2,210,200,440**	2,210,106,794
Effect of deemed issue of shares under the pre-IPO employee share option scheme	**2,306,754**	3,612,246
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,212,507,194**	2,213,719,040

9 SEGMENT REPORTING

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

1 4S dealership business

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

2 Supply chain business

Supply chain business mainly includes provision of motor-related logistics services and trading of lubricant oil.

3 Financial services business

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

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

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

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

The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other 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		Supply chain business		Financial services business		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**14,116,028**	13,595,334	**299,885**	272,502	**180,241**	2,441	**14,596,154**	13,870,277
Inter-segment revenue	**–**	–	**–**	7,107	**11,051**	766	**11,051**	7,873
Reportable segment revenue	**14,116,028**	13,595,334	**299,885**	279,609	**191,292**	3,207	**14,607,205**	13,878,150
Reportable segment profit/(loss)	**371,445**	454,992	**24,169**	20,468	**99,101**	(5,979)	**494,715**	469,481
Depreciation and amortisation for the period	**187,549**	172,558	**13,011**	3,322	**4,919**	452	**205,479**	176,332
Reportable segment assets as at 30 June 2016/ 31 December 2015	**14,137,152**	14,137,909	**3,041,615**	3,226,969	**3,155,393**	1,917,643	**20,334,160**	19,282,521
Additions to non-current segment assets during the period	**287,062**	629,001	**2,452**	4,102	**111,528**	14,145	**401,042**	647,248
Reportable segment liabilities as at 30 June 2016/ 31 December 2015	**(11,070,041)**	(10,958,515)	**(1,983,896)**	(2,267,591)	**(2,559,999)**	(1,397,238)	**(15,613,936)**	(14,623,344)
Investment in a joint venture and associates as at 30 June 2016/ 31 December 2015	**–**	–	**228,973**	220,514	**19,838**	–	**248,811**	220,514

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Reportable segment profit	**494,715**	469,481
Elimination of inter-segment profits	**(8,342)**	–
Unallocated head office expenses	**(59,457)**	(4,520)
Other revenue	**186,209**	217,864
Other net income	**28,876**	37,920
Finance costs	**(257,923)**	(226,420)
Consolidated profit before taxation	**384,078**	494,325

(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 2016	At 31 December 2015
	RMB'000	*RMB'000*
Assets:		
Reportable segment assets	**20,334,160**	19,282,521
Intangible assets	**3,739,771**	3,789,357
Goodwill	**1,926,551**	1,926,551
Deferred tax assets	**127,628**	113,208
Unallocated head office assets	**76,387**	65,153
Elimination of inter-segment receivables	**(1,136,076)**	(1,497,140)
Consolidated total assets	**25,068,421**	23,679,650
Liabilities:		
Reportable segment liabilities	**(15,613,936)**	(14,623,344)
Income tax payables	**(1,000,672)**	(972,331)
Deferred tax liabilities	**(878,860)**	(888,180)
Unallocated head office liabilities	**(3,293)**	(3,597)
Elimination of inter-segment payables	**1,136,076**	1,497,140
Consolidated total liabilities	**(16,360,685)**	(14,990,312)

10 INVENTORIES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Motor vehicles	**3,392,654**	2,911,859
Motor spare parts	**244,900**	262,771
Others	**21,884**	19,105
	3,659,438	3,193,735

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) is as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 3 months	**448,655**	509,220
Over 3 months but within 1 year	**15,473**	16,680
Over 1 year	**7,928**	7,718
Less: allowance for doubtful debts	**–**	–
Trade debtors and bills receivable, net of allowance for doubtful debts	**472,056**	533,618
Prepayments	**749,329**	837,255
Other receivables and deposits	**4,196,421**	3,923,490
Less: allowance for doubtful debts	**–**	–
Trade and other receivables	**5,417,806**	5,294,363

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
Supply chain business	30 to 90 days

12 RECEIVABLES FROM FINANCIAL SERVICES

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Current		
Receivable from retail customers	**630,898**	588,939
Receivable from auto dealers	**199,896**	252,106
Less: allowance for doubtful debts	**(4,495)**	(6,361)
	826,299	834,684
Non-Current		
Receivable from retail customers	**1,769,146**	709,811
Less: allowance for doubtful debts	**(22,188)**	(5,458)
	1,746,958	704,353
Net receivables from financial services	**2,573,257**	1,539,037

Receivable from retail customers are expected to be recovered within one to three years. Receivable from auto dealers are expected to be recovered within one year.

13 CASH AND CASH EQUIVALENTS

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Deposit with banks within 3 months of maturity	**950**	8,000
Cash at banks and on hand	**1,069,308**	1,591,117
Cash and cash equivalents in the consolidated statements of financial position	**1,070,258**	1,599,117

14 LOANS AND BORROWINGS

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

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Current		
Loans and borrowings for financial services		
Unsecured bank loans	**2,150,000**	950,000
Secured long-term bank loans repayable within 1 year	**189,596**	219,500
Unsecured long-term bank loans repayable within 1 year	**120,000**	–
	2,459,596	1,169,500
Loans and borrowings for non-financial services		
Unsecured bank loans	**3,683,999**	3,006,000
Unsecured short-term commercial paper	**750,000**	1,100,000
	4,433,999	4,106,000
Secured bank loans	**239,902**	199,550
Secured borrowings from other financial institutions	**344,539**	176,032
	5,018,440	4,481,582
Sub-total	**7,478,036**	5,651,082
Non-current		
Loans and borrowings for financial services		
Unsecured bank loans	**–**	120,000
Secured bank loans	**–**	68,000
Sub-total	**–**	188,000
Total	**7,478,036**	5,839,082

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 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Within 3 months	**3,530,083**	3,729,025
Over 3 months but within 6 months	**100,716**	145,251
Over 6 months but within 12 months	**3,773**	3,052
Total creditors and bills payable	**3,634,572**	3,877,328
Receipts in advance	**402,147**	484,462
Other payables and accruals	**739,049**	770,858
Payables due to third parties	**4,775,768**	5,132,648
Payables due to related parties	**13,439**	–
Trade and other payables	**4,789,207**	5,132,648

16 CONTINGENT LIABILITIES

As of 30 June 2016, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

For the first half of 2016, China's gross domestic production (GDP) grew by 6.7%, year-on-year, indicating an overall trend of stability and growth for the national economy. Per capita disposable income grew by 8.7%, year-on-year, and after deducting the price factor, the actual growth was 6.5%, which is largely in line with the GDP growth for the first half of the year. According to statistics released by the China Association of Automobile Manufacturers, sales of passenger automobiles in China during the first half of 2016 increased by 9.23%, year-on-year, to 11,042,300 units, representing an improvement in growth rate by 4.43 percentage points as compared to the corresponding period of last year. While the overall market of the passenger automobiles saw a steady growth year-on-year, the market of the luxury-branded automobiles experienced growth to varying extents, but the competition also intensified. Among the major brands under the Group's dealership, for the first half of the year, the sales volume of BMW and MINI branded automobiles in China reached 247,644, representing a year-on-year growth of 7.4%; the sales volume of Audi branded automobiles in China was 290,126, representing a year-on-year growth of 5.9%; the sales volume of Benz branded automobiles in China was 215,527, representing a year-on-year growth of 34%; the sales volume of Jaguar and Land Rover branded automobiles in China was 53,156, representing a year-on-year growth of 18.7%; the sales volume of Volvo branded automobiles in China was 40,688, representing a year-on-year growth of 6.3%; and the sales volume of Porsche branded automobiles in China was 30,440, representing a year-on-year growth of 4%. A core dealer group for many leading luxury brands in China, the Group continues to collaborate closely with respective automobile manufacturers to expand China's market and strives to identify industry dynamics and maximize service opportunities fostered by changing trend of automotive consumer habit. In addition to further improving its existing services, the Group also actively explored innovative service models to further enhance customers' service experience leveraging on its diversified brand portfolios, optimal sales network and well-rounded sales and services platform.

During the first half 2016, the Group put great effort to substantiate our traditional after-sales services and extended services, such as repair, maintenance and sales of auto accessories, and to actively establish and promote innovative businesses with our own signature characteristics. In particular, the Group made substantial progress in the auto finance-related services by significantly diversifying its sales channels through external partnership and providing customers with more tailor-made competitive auto finance solutions. These initiatives combined shall significantly contribute the sales of new automobiles, pre-owned automobile business, financial leasing and customer relations and our business overall in the long run.

In the future, China's auto consumption market shall become more mature, with both enormous business opportunities and intensified competition and demanding needs for professional expertise. The Group is committed to increasing the efficiency of internal management, improving service platforms to adequately capitalize on its existing customer base and competitive strengths, in order to establish a high-quality, convenient and all-rounded automobile related consumptions ecosystem and create greater value to our shareholders and the society.

BUSINESS REVIEW

In the first half of 2016, the Group continued concentrating on sales of luxury and ultra-luxury branded automobiles and its traditional after-sales services, while making significant efforts to its high value-added after-market businesses in the sectors of auto financing, financial leasing, insurance brokerage, pre-owned automobiles, etc. For the six months ended 30 June 2016, the Group achieved revenue of approximately RMB14,596 million, representing a year-on-year increase of approximately 5.2%, and gross profit of approximately RMB1,344 million, representing a year-on-year increase of approximately 9.7%. Profit attributable to shareholders of the Company was approximately RMB253 million with basic earnings per share of approximately RMB11.5 cents.

Sales of new automobiles business

In the first half of 2016, the Group achieved steady growth in the sales volume of new automobiles despite growing competition, largely attributed to its emphasis on unlocking in same-store sales and consolidating its existing regional competitive strengths as well as thoughtful network expansion. For the six months ended 30 June 2016, the Group reported the sales volume of new automobiles of 44,474, representing a year-on-year increase of approximately 10.8%, including 31,458 luxury and ultra-luxury branded automobiles with a year-on-year increase of 14.2%. During the first half of the year, the auto manufacturers of major brands under the Group's dealership continued to strengthen their product offerings with new models, the average selling prices continued a stable downward trend, and respective brands' margin diverge as the competition landscape shifts.

For the first half of 2016, the Group's gross profit from the sales of new automobiles amounted to RMB390 million, representing a year-on-year increase of approximately 1.0%, while there was a slight setback in the overall gross profit margin.

After-sales services business

The steady growing car ownership in China continued to contribute to the expansion in after-sales services in the automobile market. Regulation and policy changes related to spare parts and components foster both new growth opportunities and competition. For the first half of 2016, the Group provided services to 475,346 vehicles, representing a year-on-year growth of 6.2%, which indicated a steadily expanding basis for its after-sales services business. The Group made great efforts to enhance our customer loyalty, while ensuring positive growth in revenue and gross profit for the after-sales service business by increasing the overall throughputs in response to adjustments in the prices of spare parts and components. Meanwhile, the Group was actively engaged in the research, development and marketing of new products and services. For example, in terms of the marketing, the Group enhanced the development of customized solutions in maintenance, repairing, warranty renewal and extension by leveraging our favorable strengths, in order to further increase our product penetration rate. In terms of service experience, the Group provided more efficient services to customers through instant appointment and express bodywork. Our loaner vehicle services included loaner vehicle insurance and loaner vehicle subsidies for customers. Regarding cost control, the Group reorganized its departments and optimized its centralized procurement channels and management of inventory and spare parts to facilitate stringent control over costs.

Finance and insurance business

In the first half of 2016, the Group made focused efforts to forge a financial business segment with Shanghai Dongzheng Automotive Finance Co., Ltd. ("Dongzheng AFC") as the core to build a personalized and diversified financial service platform, on which the Group develops and provides differentiated, diversified and customer-oriented financial products and services, including loan products of Dongzheng AFC, financial leasing products of Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. and other financial products collaborated with auto manufacturer partner.

Unique auto finance platform fostering competitive strengths in differentiation

The Group's automobile financial service business is conducted mainly through Dongzheng AFC. As a non-banking financial institution approved by China Banking Regulatory Commission, Dongzheng AFC is the first auto finance company primarily owned and operated by a dealer group, and is principally engaged in auto consumer financing (i.e. retail loan), auto dealership financing (i.e. wholesale loan) and consulting and agency services relating to auto finance, etc. China's auto consumer finance market is embracing a period of rapid growth. During the first half of 2016, by fully leveraging on the Group's unique competitive strengths in product design, risk control and marketing channels, Dongzheng AFC reported rapid growth in high quality loan assets in relation to numerous automobile brands across the country in a relatively short period of time. In the future, Dongzheng AFC will further identify different types of customer demands and embark on extensive strategic cooperation with OEMs or dealership groups to broaden the channels for its retail loan business. In the meantime, it will also explore potential financing demands relating to automotive logistics commercial vehicles and pre-owned automobiles.

As at 30 June 2016, total assets of Dongzheng AFC amounted to approximately RMB3,166 million, among which, the balance of retail loan was approximately RMB2,371 million. In the first half of 2016, a total of 6,833 auto units was financed by Dongzheng AFC, which has already exceeded the full-year output of 2015, recording an increase by 1,663 units or 32.2% compared to the second half of the previous year. For the six months ended 30 June 2016, Dongzheng AFC recorded net profit of approximately RMB73.50 million. With the rapid growth, Dongzheng AFC will show distinct advantages in finance cost and economies of scale as a specialized financial institution.

Growing maturity of the insurance brokerage business

For the insurance brokerage business, the Group further increased its penetration rate for insurance renewal in the first half of 2016 while sustaining a currently high penetration rate for new insurance policy. In the context of the reform of auto insurance rates in China, the Group is developing e-platform for its insurance brokerage business to facilitate online interaction and offline cooperation among the insurers, insurance brokers, customers and staff to increase the service quality and efficiency of the insurance brokerage business. In the future, the Group will continue to develop its insurance brokerage business by enhancing its e-platform and product display as well as distinctive product portfolios, such that insurance brokerage will become a more independent business segment.

Supply chain business

The Group's supply chain business segment mainly consists of automobile logistics business and trading of auto maintenance supplies. The automobile logistics business enjoys a cutting-edge and comprehensive proprietary logistics management system with national "5A" logistic enterprise qualifications, and its scope of business covers the full supply chain for automobile logistics from procurement logistics, production logistics, distribution processing, distribution logistics and vehicle logistics to logistics-related consulting services. The trading of auto maintenance supplies mainly includes trading of lubricant oil. Our automobile logistics business provides services primarily to mainstream automobile groups in China through a service network that covers 25 provinces and municipalities in China. As an automobile logistics service platform with leading technologies in China, the segment has enormous potential for future growth, aiming to develop into one of the largest independent third-party automobile logistics service providers in China owned by non-OEMs.

Balanced and reasonable deployment of the nationwide dealership network for luxury brands complemented by ongoing optimization to enhance overall profitability

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

As of 30 June 2016, the Group operated 113 dealership stores in 36 cities across 15 provinces and municipalities in China. During the first half of 2016, the Group opened 4 new operating dealership stores for luxury automobiles, namely an Audi 4S store in Shenzhen, an Audi 4S store in Zhengzhou, an Audi 4S store in Qingdao and a Jaguar and Land Rover 4S store in Wuhan.

As of the date of this report, the Group has opened 1 more dealership store for luxury branded automobiles, namely a Volvo 4S store in Guangzhou. In 2016, there is 15 dealership stores under development or to be developed, which are franchised by core luxury automobile brands, such as Porsche, Benz, Audi, BMW, Jaguar and Land Rover as well as Volvo, covering first-tier cities including Beijing, Shanghai, Guangzhou, Shenzhen and Chongqing, as well as regions with potential for rapid development, such as Yunnan, Shandong, Hebei, Hubei and Guangdong, in further enhancement of the Group's advantage in scale and channels.

While being engaged in the prudent expansion of its dealership network in the first half of 2016, the Group also sought to further optimize the well-balanced and reasonable deployment of its existing dealership stores and continuously improve the overall profitability of its entire network. As at 30 June 2016, the Group had closed down certain stores, including the Volvo urban showroom in Luohu, Shenzhen, the Lamborghini 4S store in Shanxi, and the Jaguar and Land Rover urban showroom in Shantou. As at the date of this report, the Group has further closed down the Volvo urban showroom in East Fourth Ring, Beijing.

While pursuing in-depth optimization of its existing network, the Group also introduced initiatives to upgrade the shop environment and standardize workflow for all dealership stores, with the aim of increasing the profitability of the Group's network by enhancing customers' shopping experience and continuously improving the overall competitiveness of its sales network.

The following table sets forth the details of our dealership stores as at 30 June 2016:

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S store for luxury and ultra-luxury brands	78	13	91
4S store for mid – to high-end brands	15	0	15
Urban showroom for 4S stores	15	0	15
Authorized repair service centre for luxury brands	5	1	6
Pre-owned automobile centre	0	1	1
Total	113	15	128

By establishing strategic cooperation with leading manufacturers of luxury and ultra-luxury branded automobiles in China, the quality of the existing network as well as 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 stores for luxury and ultra-luxury branded automobiles, which will further strengthen the Group's existing regional advantages. Our newly planned stores will develop synergy with our existing dealership network. In the second half of 2016, the Group will remain focused on seeking well-balanced and reasonable deployment and prudent expansion of our existing dealership network of core luxury branded automobiles, while further optimizing its dealership network to enhance the overall profitability of the Group and keep up the momentum for the Group's overall operation and various extended and innovative businesses.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2016, the Group recorded a revenue of approximately RMB14,596 million, representing an increase of approximately 5.2% as compared to the revenue of approximately RMB13,870 million in the first half of 2015. The increase was mainly due to an increase in number of dealership stores in the period under review.

Revenues of the Group were derived from the sales of new automobiles, the after-sales services and other business. In the first half of 2016, revenue from the sales of new automobiles amounted to approximately RMB12,400 million, representing an increase of approximately 4.1% as compared to approximately RMB11,910 million in the first half of 2015, and accounted for approximately 85.0% of the total revenue in the first half of 2016.

Revenue from the after-sales services business was approximately RMB1,719 million, representing a growth of approximately 2.0% as compared to approximately RMB1,685 million in the first half of 2015. In the first half of 2016, revenue from luxury and ultra-luxury branded automobiles increased by approximately 4.6% to RMB10,797 million from approximately RMB10,322 million in the first half of 2015, accounting for 87.1% of revenue from the sales of new automobiles. In the first half of 2016, revenues from the sales of new automobiles and the after-sales services business accounted for approximately 85.0% and 11.8% of our total revenue respectively, representing a decrease approximately of 0.3 percentage point in revenue from the after-sales services business.

Cost of sales

For the six months ended 30 June 2016, the Group's cost of sales increased by approximately 4.8%, which was in line with the increase in revenue, to approximately RMB13,252 million as compared to approximately RMB12,645 million in the first half of 2015. In the first half of 2016, the cost of sales for new automobiles increased by approximately 4.2% to approximately RMB12,010 million from approximately RMB11,524 million in the first half of 2015. The increase in cost of sales for new automobiles was substantially in line with the growth in revenue from sales of new automobiles. Cost of the after-sales services business increased by approximately 3.6% to approximately RMB912 million from approximately RMB880 million in the first half of 2015.

Gross profit and gross profit margin

For the six months ended 30 June 2016, the Group's gross profit increased by approximately 9.7% to RMB1,344 million from approximately RMB1,225 million in the first half of 2015, and the Group's gross profit margin grew by approximately 0.4 percentage point to approximately 9.2% from 8.8% in the first half of 2015.

The Group's gross profit was principally generated from after-sales services, sales of new automobiles business and automobile financing services. In the first half of 2016, gross profit of sales of new automobiles was approximately RMB390 million, representing an increase of approximately 1.0% as compared to the same period in 2015; gross profit margin of sales of new automobiles slightly decreased to 3.1% as compared to the first half of 2015. Gross profit of sales of luxury and ultra-luxury branded automobiles marginally dropped by approximately 0.3% as compared to the same period last year to approximately RMB362 million, and gross profit margin of sales of luxury and ultra-luxury branded automobiles slightly decreased to 3.4% from 3.5% in the first half of 2015, such decrease was mainly due to increasing competition among luxury and ultra-luxury brands. In the first half of 2016, gross profit of our after-sales services business was approximately RMB807 million, representing an increase of approximately 0.2% as compared to the same period last year, and gross profit margin of after-sales services business decreased by approximately 0.9 percentage point to approximately 46.9% from approximately 47.8% in the first half of 2015. Gross profit and gross profit margin of Dongzheng AFC for the first half of 2016 were approximately RMB110 million and approximately 62% respectively.

Selling and distribution expenses

For the six months ended 30 June 2016, the Group's selling and distribution expenses increased by approximately 18.0% to approximately RMB441 million from approximately RMB374 million in the first half of 2015. Such increase was primarily due to increase in leasing charges, wages and depreciation as a result of an increase in number of dealership stores.

Administrative expenses

For the six months ended 30 June 2016, the Group's administrative expenses amounted to approximately RMB485 million, representing an increase of approximately 23.5% over approximately RMB392 million in the first half of 2015. Such increase was due to an increase in number of dealership stores during the period under review and an exchange loss incurred from the depreciation of Renminbi since the beginning of the year.

Profit from operations

For the six months ended 30 June 2016, the Group's profit from operations decreased by approximately 11.4% to approximately RMB634 million from approximately RMB715 million in the first half of 2015, and the operating profit margin was approximately 4.3%, representing a decrease of approximately 0.9 percentage point over approximately 5.2% in the first half in 2015.

Income tax expenses

For the six months ended 30 June 2016, the Group's income tax expenses amounted to approximately RMB124 million and the effective tax rate was approximately 32.2%.

Profit for the period

For the six months ended 30 June 2016, the Group's profit for the period decreased by approximately 26.1% to approximately RMB260 million from approximately RMB352 million in the first half of 2015. During the period, net profit margin was decreased by approximately 0.7 percentage point to approximately 1.8% from approximately 2.5% in the first half of 2015.

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 2016.

Contingent liabilities

As at 30 June 2016, 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 2016, the Group's current assets amounted to approximately RMB12,572 million, representing an increase of approximately RMB169 million as compared to the current assets of approximately RMB12,403 million as at 31 December 2015. Such increase was mainly due to an increase in the appropriation of capital in the inventories of new automobiles by the Group based upon market situation.

As at 30 June 2016, the Group's current liabilities amounted to approximately RMB13,268 million, representing an increase of approximately RMB1,512 million as compared to the current liabilities of approximately RMB11,756 million as at 31 December 2015. Such increase was mainly due to the expansion of the scale of the Group's automobile financing business.

Cash flow

As at 30 June 2016, the Group had cash and cash equivalents amounting to approximately RMB1,070 million, representing a decrease of approximately RMB529 million over approximately RMB1,599 million as at 31 December 2015. The Group's transactions and monetary assets are principally conducted in RMB. 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 2016, the Group had net cash outflow of approximately RMB144 million used for its operating activities (six months ended 30 June 2015: net cash inflow of approximately RMB713 million).

Capital expenditure and investment

For the six months ended 30 June 2016, the Group's capital expenditure and investment were approximately RMB401 million.

Inventory

The Group's inventories included vehicles and automobile spare parts. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventory, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group was approximately RMB3,659 million as at 30 June 2016, increased by approximately RMB465 million when compared with RMB3,194 million as at 31 December 2015. Such increase was due to an increase in the appropriation of capital in the inventories of new automobiles by the Group based upon market situation. The Group's average inventory turnover days for the first half of 2016 decreased by 9.5 days to 46.5 days from 56.0 days for the first half of 2015. The following table sets forth our average inventory turnover days for the six-months indicated:

	For the six months ended 30 June (day)	
	2016	2015
Average inventory turnover days	**46.5**	56.0

Risks of foreign exchange fluctuation

The Group conducts its business primarily in Renminbi. Certain bank deposits, 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 fluctuations in exchange rate. The Group used cross currency swap to hedge its US-dollar future bonds. As at 30 June 2016, a fair value of approximately RMB47.63 million (31 December 2015: RMB27.04 million) was recognised by the Group on the cross currency swap.

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 2016, the Group's cash and bank deposits were approximately RMB2,668 million (including: pledged bank deposits and balances with central bank of approximately RMB1,598 million and cash and cash equivalents of approximately RMB1,070 million), representing a decrease of approximately RMB412 million, from approximately RMB3,080 million as at 31 December 2015. As at 30 June 2016, loans and borrowings and bonds payable of the Group amounted to approximately RMB9,688 million (31 December 2015: RMB7,997 million). Save as loans and borrowings and bonds payable of approximately RMB7,512 million that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. As at 30 June 2016, net gearing ratio of the Group was approximately 80.6% (31 December 2015: approximately 56.6%). Net gearing ratio was calculated as loans and borrowings and bonds payable less cash and bank deposits divided by owner's equity. The increase in the ratio was mainly attributable to the growth in the scale of the Group's auto finance business.

Pledged assets of the group

The Group has pledged its group assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 30 June 2016, the pledged assets of the Group amounted to approximately RMB3,827 million (31 December 2015: approximately RMB3,620 million).

Material acquisition and disposal of subsidiaries and associated companies

For the six months ended 30 June 2016, 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 2016, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had a total of 8,971 employees in China (31 December 2015: 8,765 employees). The staff costs incurred for the six months ended 30 June 2016 was approximately RMB351.0 million (for the six months ended 30 June 2015: approximately RMB300.2 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.

FUTURE OUTLOOK AND STRATEGIES

The growing maturity of China's automobile market and the steady increase in the disposable income of the Chinese people have contributed to the stable growth in automobile sales and spending on related services. Meanwhile, the upgrade in retail spending has also resulted in more exacting demand for the quality of products and services. In future, luxury automobiles consumers will demand for more specialized services at various stages of retail spending on automobiles, while expecting to enjoy premium and convenient one-stop integrated services. The Group will bring superior spending experience to customers on the back of its diversified portfolio of luxury brands, comprehensive nationwide network and customized value-added financial and insurance services. Leveraging fully the strengths of its integrated platform and standalone business segments, the Group will cater to changes in customers' spending habits and actively expand and enrich its service channels to seize any opportunities for development. In the meantime, the Group will also develop its traditional sales network in a more target-specific manner while consistently improving the efficiency of its internal management and operations, with a view to delivering greater value to its shareholders, employees and the community.

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. Cao Tong.

The Audit Committee has reviewed the unaudited interim financial statements for six months ended 30 June 2016. KPMG, the Group's external auditor, has carried out a review of the unaudited interim financial statements for the six months ended 30 June 2016 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 2016.

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 2016.

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 compiled with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the interim report for the six months ended 30 June 2016 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

22 August 2016

As at the date of this announcement, the Board comprises Mr. WANG Muqing (Chairman), Mr. WANG Kunpeng (Chief Executive Officer), Mr. LI Zhubo, Mr. LI Yi, Mr. SHAO Yong Jun and Mr. WAN To as executive Directors; and Dr. WONG Tin Yau, Kelvin, Mr. ZHAO Chunjun and Mr. CAO Tong as independent non-executive Directors.