



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

Stock Code 股份代號 : 1728

**A LEADING LUXURY
BRANDS DEALER**

2016 INTERIM REPORT 中期報告

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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%. Being a core dealer group for many leading luxury brands in China, China ZhengTong Auto Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") continued to collaborate closely with automobile manufacturers to expand China's market and strived to identify industry dynamics and maximize service opportunities fostered by the ever-changing consumer behavior. In addition to further strengthening its existing services, the Group also actively explored innovative service offerings to enhance customers experience by leveraging on its diversified brand portfolios, optimal national sales network and well-rounded business platform.

During the first half 2016, the Group put great effort to substantiate its traditional after-sales services, such as repair, maintenance and sales of auto accessories, and actively promoted its innovative extended businesses with its own distinctive attributes. In particular, the Group achieved significant progress in the auto finance-related services by substantially diversifying its sales distribution channels through external partnership and by providing its customers with more tailor-made competitive auto finance solutions. These combined initiatives shall significantly contribute to the sales of new automobiles, pre-owned automobile business, finance & insurance, customer satisfaction and the business as a whole in the long run.

In the future, China's auto consumption market shall become more mature, with both tremendous business opportunities and intensified competition, requiring more dedicated resources and experienced specialties. The Group is committed to increasing the efficiency of internal management and improving service platforms to maximize its existing customer base and competitive strengths. We are dedicated to a high-quality, convenient and well-rounded automobile related consumptions ecosystem to deliver greater value to its shareholders, clients and the whole society.

MANAGEMENT DISCUSSION AND ANALYSIS

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 highly value-added post-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 reached 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 increase 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance and insurance business

In the first half of 2016, the Group endeavored to transform Shanghai Dongzheng Automotive Finance Co., Ltd. (“Dongzheng AFC”) into a full fledging financial services segment. The Group sought to integrate financing products of Dongzheng AFC, leasing solutions of Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. and other financial offerings collaborated with various partners to provide highly customized and diversified financial services to address its customer needs.

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 policy 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 whole 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. The 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 are 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 its existing well-balanced and reasonably deployed 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.

MANAGEMENT DISCUSSION AND ANALYSIS

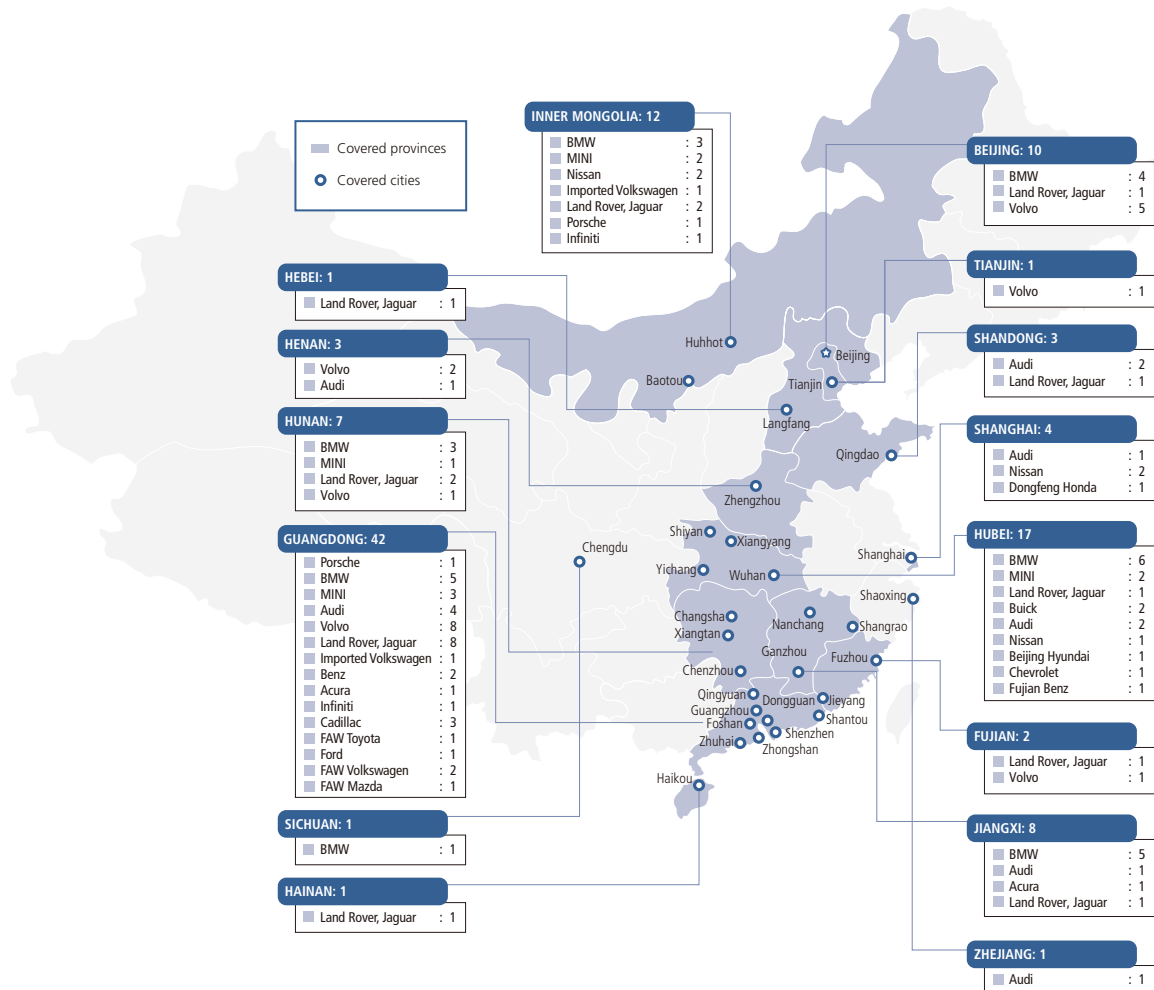
The following table sets forth the details of dealership stores of the Group as at 30 June 2016:

| | 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. Its newly planned stores will develop synergy with its existing dealership network. In the second half of 2016, the Group will remain its focus on seeking well-balanced and reasonable deployment and prudent expansion of its 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BALANCED NATIONWIDE DEALERSHIP NETWORK



Total number of dealership stores in operation in the PRC as at 30 June 2016: 113

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Capital Commitments

For details, please refer to note 20(a) to the unaudited interim financial report.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK AND STRATEGIES

The growing maturity of China's automobile market and the steady increase in the disposable household income ensure the stable growth in automobile sales and spending on related services. Meanwhile, consumption upgrades also demand for better quality of products and services. In the future, luxury car customers will seek for more dedicated and specialized services on a well-rounded and highly convenient platform. The Group is well positioned to maximize its customer experience through its well diversified luxury brands portfolio, comprehensive nationwide network and highly value-added services such as finance and insurance in addition to its traditional premier after-sale services. Leveraging adequately on the strengths of its integrated platform and full fledging business segments, the Group shall address to changing customer behavior and seize leading emerging growth opportunities in the industry. Meanwhile, the Group shall also continue to develop its traditional sales network and improve internal management and operations efficiency to constantly deliver greater value to its shareholders, customers and the society.

OTHER INFORMATION

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

As at 30 June 2016, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

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

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

Notes:

- These shares are directly held by Joy Capital Holdings Limited ("Joy Capital"). The entire issued share capital of Joy Capital is owned by Grand Glory Enterprises Limited ("Grand Glory"), whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang Muqing and his family members.
- These represent the maximum number of shares which may be allotted and issued to Mr. Wang Kunpeng upon the exercise of the options under a pre-initial public offering share option scheme ("Pre-IPO Share Options") granted to him. The Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each share upon the exercise of the Pre-IPO Share Options is RMB1.5.

OTHER INFORMATION

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

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

| Name of Director | Name of associated corporation | Capacity | Approximate percentage of equity interest |
|-------------------------|---------------------------------------|---|--|
| Wang Muqing | Joy Capital | Settlor of The Grand Glory Trust (Note 1) | 100% |

Notes:

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

Save as disclosed above, as at 30 June 2016, none of the Directors or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

OTHER INFORMATION

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the interests or short positions of the substantial shareholders (other than the Directors) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the shares of the Company:

| Name of Shareholders | Capacity/nature of interest | Number of Shares | Approximate percentage of shareholding |
|-----------------------------|---|-------------------------|---|
| Joy Capital | Beneficial owner (Note 1) | 1,372,516,820 | 62.10% |
| Grand Glory | Interest of controlled corporation (Note 1) | 1,372,516,820 | 62.10% |

Notes:

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

SHARE OPTION SCHEMES

(a) Share Option Scheme

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

Eligible participants of the Share Option Scheme include the following:

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

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- (ii) any non-executive directors (including independent non-executive directors) of the Company, any of the Company's subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the growth of the Group,

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

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

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

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

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

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

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

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

(b) Pre-IPO Share Option Scheme

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

Details of movements in the Pre-IPO Share Option Scheme during the six months ended 30 June 2016 are as follows:

| Grantees | Date of grant | Exercise price per share (RMB) | Exercise period | Outstanding as at 1 January 2016 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding as at 30 June 2016 |
|------------------|---------------|--------------------------------|-----------------------|----------------------------------|---------------------------|-----------------------------|--------------------------|--------------------------------|
| Directors | | | | | | | | |
| Wang Kunpeng | 10/8/2010 | 1.50 | 01/01/2012–10/08/2017 | 205,000 | 0 | 0 | 0 | 205,000 |
| | 10/8/2010 | 1.50 | 01/01/2013–10/08/2017 | 512,500 | 0 | 0 | 0 | 512,500 |
| | 10/8/2010 | 1.50 | 01/01/2014–10/08/2017 | 512,500 | 0 | 0 | 0 | 512,500 |
| | | | | 1,230,000 | 0 | 0 | 0 | 1,230,000 |

OTHER INFORMATION

| Grantees | Date of grant | Exercise price per share (RMB) | Exercise period | Outstanding as at 1 January 2016 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding as at 30 June 2016 |
|--------------------------------|---------------|--------------------------------|-----------------------|----------------------------------|---------------------------|-----------------------------|--------------------------|--------------------------------|
| Li Zubo | 10/8/2010 | 1.50 | 01/01/2012–10/08/2017 | 205,000 | 0 | 0 | 0 | 205,000 |
| | 10/8/2010 | 1.50 | 01/01/2013–10/08/2017 | 512,500 | 0 | 0 | 0 | 512,500 |
| | 10/8/2010 | 1.50 | 01/01/2014–10/08/2017 | 512,500 | 0 | 0 | 0 | 512,500 |
| | | | | 1,230,000 | 0 | 0 | 0 | 1,230,000 |
| Sub-total | | | | 2,460,000 | 0 | 0 | 0 | 2,460,000 |
| Employees and former employees | 10/8/2010 | 1.50 | 01/01/2012–10/08/2017 | 211,230 | 0 | 0 | 0 | 211,230 |
| | 10/8/2010 | 1.50 | 01/01/2013–10/08/2017 | 973,075 | 0 | 0 | 0 | 973,075 |
| | 10/8/2010 | 1.50 | 01/01/2014–10/08/2017 | 2,128,075 | 0 | 0 | 0 | 2,128,075 |
| | | | | 3,312,380 | 0 | 0 | 0 | 3,312,380 |
| | 10/8/2010 | 2.00 | 01/04/2012–10/08/2017 | 66,200 | 0 | 0 | 0 | 66,200 |
| | 10/8/2010 | 2.00 | 01/04/2013–10/08/2017 | 170,500 | 0 | 0 | 0 | 170,500 |
| | 10/8/2010 | 2.00 | 01/04/2014–10/08/2017 | 170,500 | 0 | 0 | 0 | 170,500 |
| | | | | 407,200 | 0 | 0 | 0 | 407,200 |
| | 10/8/2010 | 2.50 | 01/07/2012–10/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | 10/8/2010 | 2.50 | 01/07/2013–10/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | 10/8/2010 | 2.50 | 01/07/2014–10/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | | | | 0 | 0 | 0 | 0 | 0 |
| | 20/8/2010 | 2.50 | 01/07/2012–20/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | 20/8/2010 | 2.50 | 01/07/2013–20/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | 20/8/2010 | 2.50 | 01/07/2014–20/08/2017 | 0 | 0 | 0 | 0 | 0 |
| | | | | 0 | 0 | 0 | 0 | 0 |

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| Grantees | Date of grant | Exercise price per share (RMB) | Exercise period | Outstanding as at 1 January 2016 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding as at 30 June 2016 |
|-----------|---------------|--------------------------------|-----------------------|----------------------------------|---------------------------|-----------------------------|--------------------------|--------------------------------|
| | 17/11/2010 | 2.50 | 01/07/2012–17/11/2017 | 26,000 | 0 | 0 | 0 | 26,000 |
| | 17/11/2010 | 2.50 | 01/07/2013–17/11/2017 | 13,000 | 0 | 0 | 0 | 13,000 |
| | 17/11/2010 | 2.50 | 01/07/2014–17/11/2017 | 13,000 | 0 | 0 | 0 | 13,000 |
| | | | | 52,000 | 0 | 0 | 0 | 52,000 |
| Sub-total | | | | 3,771,580 | 0 | 0 | 0 | 3,771,580 |
| Total | | | | 6,231,580 | 0 | 0 | 0 | 6,231,580 |

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code ("Securities Dealing Code") regarding securities transactions of the directors with standards no less exacting than that of the Model Code. 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 2016.

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 Company had complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2016, except that, pertaining to Code Provisions E.1.2, Mr. Wang Muqing, chairman of the board of the Company, was unable to attend the 2016 annual general meeting of the Company due to other commitments.

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CHANGES IN DIRECTORS' INFORMATION

The following are the changes in the information of Directors since the date of the 2015 Annual Report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51B of the Listing Rules:

Dr. Wong Tin Yau, Kelvin, independent non-executive director of the Company, retired as an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd. (a company listed on both the Hong Kong Stock Exchange and the Shenzhen Stock Exchange) with effect from 29 June 2016, upon the expiration of his term of office. He also retired as an independent non-executive director of AAG Energy Holdings Limited (a company listed on the Hong Kong Stock Exchange) with effect from 28 April 2016.

Mr. Zhao Chunjun, independent non-executive director of the Company, retired as an independent director of China United Network Communications Limited (a company listed on the Shanghai Stock Exchange) with effect from 11 May 2016, upon the expiration of his term of office.

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.

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

INDEPENDENT REVIEW REPORT



Review Report to the Board of Directors of China ZhengTong Auto Services Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 22 to 46 which comprises the consolidated statement of financial position of China ZhengTong Auto Services Holdings Limited as of 30 June 2016, and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

22 August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016 – unaudited

(Expressed in RMB'000)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|--------------|
| | | 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 |

The notes on pages 28 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – unaudited

(Expressed in RMB'000)

| | 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 |

The notes on pages 28 to 46 form part of this interim financial report.

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 | 10 | 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 | 18 | 127,628 | 113,208 |
| Receivables from financial services | 11 | 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 | 12 | 3,659,438 | 3,193,735 |
| Trade and other receivables | 13 | 5,417,806 | 5,294,363 |
| Pledged bank deposits and balances with central bank | 14 | 1,597,793 | 1,481,308 |
| Cash and cash equivalents | 15 | 1,070,258 | 1,599,117 |
| Receivables from financial services | 11 | 826,299 | 834,684 |
| | | 12,571,594 | 12,403,207 |
| Current liabilities | | | |
| Loans and borrowings for financial services | 16 | 2,459,596 | 1,169,500 |
| Loans and borrowings for non-financial services | 16 | 5,018,440 | 4,481,582 |
| Trade and other payables | 17 | 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 |

The notes on pages 28 to 46 form part of this interim financial report.

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 liabilities | | | |
| Loans and borrowings for financial services | 16 | – | 188,000 |
| Bonds payable | | 2,209,872 | 2,158,071 |
| Deferred tax liabilities | 18 | 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 | 19 | | |
| 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 |

Approved and authorised for issue by the board of directors on 22 August 2016.

Wang Kunpeng*Director, CEO***Li Zhubo***Director, CFO*

The notes on pages 28 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited

(Expressed in RMB'000)

| | Attributable to shareholders of the Company | | | | | | | | | | Non-controlling interests | Total equity |
|---|---|---------------|------------------|------------------------|-------------------|--------------------------------|-----------------|-------------------|-----------|----------|---------------------------|--------------|
| | Share capital | Share premium | Capital reserves | PRC statutory reserves | Exchange reserves | Discretionary surplus reserves | General reserve | Retained earnings | Sub-total | | | |
| Balance at 1 January 2015 | 188,776 | 4,548,765 | 334,501 | 296,305 | 6,352 | 4,459 | - | 2,792,917 | 8,172,075 | 125,033 | 8,297,108 | |
| Changes in equity for the six months ended 30 June 2015: | | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 346,933 | 346,933 | 5,477 | 352,410 | |
| Other comprehensive income | - | - | - | - | 80 | - | - | - | 80 | - | 80 | |
| Total comprehensive income | - | - | - | - | 80 | - | - | 346,933 | 347,013 | 5,477 | 352,490 | |
| Shares issued under share option scheme | 12 | 469 | (179) | - | - | - | - | - | 302 | - | 302 | |
| Acquisition of non-controlling interest in subsidiaries | - | - | (14,769) | - | - | - | - | - | (14,769) | (10,457) | (25,226) | |
| Dividends (note 19(a)) | - | - | - | - | - | - | - | (174,201) | (174,201) | (13,000) | (187,201) | |
| Balance at 30 June 2015 and 1 July 2015 | 188,788 | 4,549,234 | 319,553 | 296,305 | 6,432 | 4,459 | - | 2,965,649 | 8,330,420 | 107,053 | 8,437,473 | |
| Changes in equity for the six months ended 31 December 2015: | | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 271,596 | 271,596 | 4,655 | 276,251 | |
| Other comprehensive income | - | - | - | - | (13,384) | - | - | - | (13,384) | - | (13,384) | |
| Total comprehensive income | - | - | - | - | (13,384) | - | - | 271,596 | 258,212 | 4,655 | 262,867 | |
| Transfer of profits to general reserve | - | - | - | - | - | - | 5,340 | (5,340) | - | - | - | |
| Dividends | - | - | - | - | - | - | - | - | - | (11,002) | (11,002) | |
| Appropriation to reserves | - | - | - | 67,500 | - | - | - | (67,500) | - | - | - | |
| Balance at 31 December 2015 | 188,788 | 4,549,234 | 319,553 | 363,805 | (6,952) | 4,459 | 5,340 | 3,164,405 | 8,588,632 | 100,706 | 8,689,338 | |

| | Attributable to shareholders of the Company | | | | | | | | | | Non-controlling interests | Total equity |
|---|---|---------------|------------------|------------------------|-------------------|--------------------------------|-----------------|-------------------|-----------|----------|---------------------------|--------------|
| | Share capital | Share premium | Capital reserves | PRC statutory reserves | Exchange reserves | Discretionary surplus reserves | General reserve | Retained earnings | Sub-total | | | |
| Balance at 1 January 2016 | 188,788 | 4,549,234 | 319,553 | 363,805 | (6,952) | 4,459 | 5,340 | 3,164,405 | 8,588,632 | 100,706 | 8,689,338 | |
| Changes in equity for the six months ended 30 June 2016: | | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 253,347 | 253,347 | 7,005 | 260,352 | |
| Other comprehensive income | - | - | - | - | (4,603) | - | - | - | (4,603) | - | (4,603) | |
| Total comprehensive income | - | - | - | - | (4,603) | - | - | 253,347 | 248,744 | 7,005 | 255,749 | |
| Acquisition of non-controlling interest in subsidiaries | - | - | (20,913) | - | - | - | - | - | (20,913) | (18,085) | (38,998) | |
| Dividends (note 19(a)) | - | - | - | - | - | - | - | (187,209) | (187,209) | (11,144) | (198,353) | |
| Balance at 30 June 2016 | 188,788 | 4,549,234 | 298,640 | 363,805 | (11,555) | 4,459 | 5,340 | 3,230,543 | 8,629,254 | 78,482 | 8,707,736 | |

The notes on pages 28 to 46 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016 – unaudited

(Expressed in RMB'000)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|-------------|
| | | 2016 | 2015 |
| Operating activities | | | |
| Cash (used in)/generated from operations | | (24,609) | 807,820 |
| Tax paid | | (119,125) | (95,311) |
| Net cash (used in)/generated from operating activities | | (143,734) | 712,509 |
| Investing activities | | | |
| Payment for the purchase of property, plant and equipment | | (398,842) | (612,840) |
| Payment for purchase of intangible assets | | (1,162) | (12,587) |
| Other cash generated from investing activities | | 98,743 | 215,093 |
| Net cash used in investing activities | | (301,261) | (410,334) |
| Financing activities | | | |
| Dividends paid to non-controlling interests | | (11,144) | (13,000) |
| Dividend paid to equity shareholders of the Company | | (187,209) | (174,201) |
| Proceeds from loans and borrowings | | 4,727,616 | 4,324,129 |
| Repayment of loans and borrowings | | (4,203,353) | (4,365,978) |
| Interest paid | | (273,918) | (249,820) |
| Other cash used in financing activities | | (138,998) | (24,924) |
| Net cash used in financing activities | | (87,006) | (503,794) |
| Net decrease in cash and cash equivalents | | (532,001) | (201,619) |
| Cash and cash equivalents at 1 January | | 1,599,117 | 1,435,083 |
| Effect of foreign exchange rate changes | | 3,142 | (4,926) |
| Cash and cash equivalents at 30 June | 15 | 1,070,258 | 1,228,538 |

The notes on pages 28 to 46 form part of this interim financial report.

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”). It was authorised for issue on 22 August 2016.

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. KPMG’s independent review report to the board of directors is included on page 21.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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.

NOTES TO THE UNAUDITED 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 RMB'000 | 2015 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 RMB'000 | 2015 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 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

6 PROFIT BEFORE TAXATION

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

| | Note | Six months ended 30 June | |
|--|------|--------------------------|-----------------|
| | | 2016 RMB'000 | 2015 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 RMB'000 | 2015 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

7 INCOME TAX

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

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Current tax: | | |
| Provision for PRC income tax for the period | 147,466 | 172,443 |
| Deferred tax: | | |
| Origination of temporary differences (note 18) | (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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

9 SEGMENT REPORTING (CONTINUED)**(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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

9 SEGMENT REPORTING (CONTINUED)

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

| | 4S dealership business | | Supply chain business | | Financial services business | | Total | |
|--|------------------------|-----------------|-----------------------|-----------------|-----------------------------|-----------------|-----------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2015 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 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

9 SEGMENT REPORTING (CONTINUED)

(b) Reconciliations of reportable segment profit or loss

| | Six months ended 30 June | |
|--------------------------------------|--------------------------|-----------------|
| | 2016 RMB'000 | 2015 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 RMB'000 | At 31 December 2015 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) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property, plant and equipment with original costs of RMB399,879,000 in aggregate (six months ended 30 June 2015: RMB633,135,000). Items of property, plant and equipment with a net book value of RMB93,557,000 were disposed of during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB181,095,000), resulting in net gain on disposal of RMB11,509,000 (six months ended 30 June 2015: RMB23,093,000).

11 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

11 RECEIVABLES FROM FINANCIAL SERVICES (CONTINUED)**(a) Ageing analysis**

As of the end of the reporting period, the ageing analysis of receivables from financial services, based on the invoice date and net of allowance for doubtful debts, is as follows:

| | At 30 June 2016 RMB'000 | At 31 December 2015 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Within 3 months | 847,718 | 915,916 |
| More than 3 months but within one year | 1,571,628 | 623,121 |
| More than 1 year but within two years | 153,911 | – |
| | 2,573,257 | 1,539,037 |

(b) Impairment of receivables from financial services

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | At 30 June 2016 RMB'000 | At 31 December 2015 RMB'000 |
|-----------------------------------|----------------------------------|--------------------------------------|
| At 1 January | 11,819 | – |
| Impairment loss recognised | 14,864 | 11,819 |
| Uncollectible amounts written off | – | – |
| At period end | 26,683 | 11,819 |

At 30 June 2016, receivables from financial services of RMB8,021,000 (2015: RMB439,000) were past due and individually determined to be impaired. Consequently, specific allowance for doubtful debts of RMB1,347,000 (2015: RMB351,000) were recognised.

(c) Receivables from financial services that are not impaired

As at 30 June 2016, there are no receivables from financial services that are past due but not impaired.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

12 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 |

13 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

4S dealership business
Supply chain business

Credit terms in general

Cash on delivery to 180 days
30 to 90 days

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

14 PLEDGED BANK DEPOSITS AND BALANCES WITH CENTRAL BANK

Guarantee deposits in respect of:

| | At 30 June 2016 RMB'000 | At 31 December 2015 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Restricted guarantee deposits in respect of: | | |
| Bank loans | 94,460 | 85,996 |
| Bills payable | 1,248,083 | 1,239,839 |
| Standby letter of credit | 251,000 | 151,000 |
| | 1,593,543 | 1,476,835 |
| Restricted balances with central bank: | | |
| Statutory deposit reserve funds | 4,250 | 4,473 |
| | 1,597,793 | 1,481,308 |

- (i) The bank deposits pledged for banks loans and bills payables will be released upon the settlement of relevant bank loans and bills payable.
- (ii) The bank deposits pledged for the standby letter of credit will be released upon the maturity day of the standby letter of credit or to be replaced by other pledged property, plant and equipment or lease prepayments.
- (iii) Balances with central bank is the statutory deposit reserve placed by the financial services company with the People's Bank of China, calculated at 7.0% of RMB deposits received.

15 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 |
| Cash and cash equivalents in the condensed consolidated cash flow statements | 1,070,258 | 1,599,117 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

16 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 | | |
| <i>Loans and borrowings for financial services</i> | | |
| 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 |
| <i>Loans and borrowings for non-financial services</i> | | |
| 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 | | |
| <i>Loans and borrowings for financial services</i> | | |
| Unsecured bank loans | – | 120,000 |
| Secured bank loans | – | 68,000 |
| Sub-total | – | 188,000 |
| Total | 7,478,036 | 5,839,082 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

17 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 (note 22(b)) | 13,439 | – |
| Trade and other payables | 4,789,207 | 5,132,648 |

18 DEFERRED TAX ASSETS AND LIABILITIES

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

| | Fair value adjustment arising from business combination RMB'000 | Depreciation allowances in excess of depreciation charges RMB'000 | Future benefits of tax losses RMB'000 | Deferred revenue RMB'000 | Capitalisation of interest RMB'000 | Total RMB'000 |
|---|--|--|--|--------------------------------|--|------------------|
| Deferred tax assets/ (liabilities) arising from: | | | | | | |
| At 1 January 2015 | (880,474) | (7,243) | 64,192 | 4,297 | (16,909) | (836,137) |
| Credited/(charged) to profit or loss (note 7) | 12,404 | 269 | 23,225 | (522) | (4,848) | 30,528 |
| At 30 June 2015 | (868,070) | (6,974) | 87,417 | 3,775 | (21,757) | (805,609) |
| At 1 January 2016 | (855,717) | (6,705) | 110,430 | 4,121 | (27,101) | (774,972) |
| Credited/(charged) to profit or loss (note 7) | 12,345 | 148 | 15,083 | (1,092) | (2,744) | 23,740 |
| At 30 June 2016 | (843,372) | (6,557) | 125,513 | 3,029 | (29,845) | (751,232) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

18 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

| | At 30 June 2016 RMB'000 | At 31 December 2015 RMB'000 |
|--------------------------|----------------------------------|--------------------------------------|
| Representing: | | |
| Deferred tax assets | 127,628 | 113,208 |
| Deferred tax liabilities | (878,860) | (888,180) |
| | (751,232) | (774,972) |

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Final dividend proposed in respect of the previous financial year, approved and paid during the following interim period, of HK\$0.10 per ordinary share (six months ended 30 June 2015: HK\$0.10 per ordinary share) | 187,209 | 174,201 |

(b) Share capital

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

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

| | At 30 June 2016 | | At 31 December 2015 | |
|--|-----------------------------------|----------------------|-----------------------------------|----------------------|
| | Number of shares (thousand) | Amount HK\$('000) | Number of shares (thousand) | Amount HK\$('000) |
| Ordinary shares, authorised: | | | | |
| Ordinary shares of HK\$0.10 each | 20,000,000 | 2,000,000 | 20,000,000 | 2,000,000 |
| Ordinary shares, issued and fully paid: | | | | |
| At 1 January | 2,210,200 | 221,020 | 2,210,050 | 221,005 |
| Shares issued pursuant to pre-IPO employee share option scheme | - | - | 150 | 15 |
| At 30 June/31 December | 2,210,200 | 221,020 | 2,210,200 | 221,020 |
| RMB equivalent ('000) | | 188,788 | | 188,788 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

20 COMMITMENTS**(a) Capital commitments**

Capital commitments of the Group in respect of property, plant and equipment outstanding at 30 June 2016 not provided for in the condensed consolidated financial statements were as follows:

| | At 30 June 2016 RMB'000 | At 31 December 2015 RMB'000 |
|----------------|----------------------------------|--------------------------------------|
| Contracted for | 318,815 | 289,931 |

(b) Operating lease commitments

At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At 30 June 2016 RMB'000 | At 31 December 2015 RMB'000 |
|---------------------------------|----------------------------------|--------------------------------------|
| Within 1 year | 291,417 | 244,287 |
| After 1 year but within 5 years | 750,726 | 696,950 |
| After 5 years | 555,187 | 571,054 |
| | 1,597,330 | 1,512,291 |

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

21 CONTINGENT LIABILITIES

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

22 MATERIAL RELATED PARTY TRANSACTIONS

During the period ended 30 June 2016, the directors are of the view that the following individual/companies are related parties of the Group:

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

Notes: The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

22 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Recurring transactions

| | Six months ended 30 June | |
|--------------------------------|--------------------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Rental expense: | | |
| Hubei Shengze | 2,797 | 2,557 |
| Beijing Baoze Technology | 16,087 | 7,846 |
| Inner Mongolia Shengze Dingjie | 11,562 | 10,936 |
| Changsha Shengze Ruibao | 1,244 | 1,149 |
| Wuhan Jieyun | 7,087 | 5,984 |
| Wuhan Jiezhong | 1,272 | 1,074 |
| Wuhan Investment | 8,173 | 7,568 |
| | 48,222 | 37,114 |

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

(b) Balances with related parties

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

| | At 30 June 2016 RMB'000 | At 31 December 2015 RMB'000 |
|--------------------------------|----------------------------------|--------------------------------------|
| Due to related parties: | | |
| Beijing Baoze Technology | 3,993 | – |
| Changsha Shengze Ruibao | 643 | – |
| Inner Mongolia Shengze Dingjie | 4,716 | – |
| Wuhan Jiangrong Investment | 4,087 | – |
| | 13,439 | – |

23 ULTIMATE HOLDING COMPANY

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Muqing (*Chairman*)
Mr. Wang Kunpeng (*Chief Executive Officer*)
Mr. Li Zhubo (*Chief Financial Officer*)
Mr. Li Yi (*Chief Operating Officer*)
Mr. Shao Yong Jun (*Vice President*)
Mr. Wan To (*Vice President*)

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin
Mr. Zhao Chunjun
Mr. Cao Tong (appointed on 8 April 2016)

REGISTERED OFFICE

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

HEADQUARTERS

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

PLACE OF BUSINESS IN HONG KONG

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

WEBSITE ADDRESS

www.zhengtongauto.com

COMPANY SECRETARY

Ms. Luo Xiao Jing

AUTHORIZED REPRESENTATIVES

Mr. Shao Yong Jun
Ms. Luo Xiao Jing

OPERATION AND MANAGEMENT COMMITTEE

Mr. Wang Kunpeng (*Chairman*)
Mr. Li Zhubo
Mr. Li Yi
Mr. Shao Yong Jun
Mr. Wan To

CORPORATE INFORMATION

AUDIT COMMITTEE

Dr. Wong Tin Yau, Kelvin (*Chairman*)
Mr. Zhao Chunjun
Mr. Cao Tong

NOMINATION COMMITTEE

Mr. Zhao Chunjun (*Chairman*)
Mr. Wang Muqing (appointed on 8 April 2016)
Mr. Cao Tong

REMUNERATION COMMITTEE

Mr. Cao Tong (*Chairman*)
Mr. Wang Muqing (appointed on 8 April 2016)
Dr. Wong Tin Yau, Kelvin

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

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

PRINCIPAL BANKERS

China Construction Bank Corporation, Hubei Branch
Ping An Bank, Shanghai Branch
Bank of China, Wuhan Economic Development Zone
Branch
China Merchants Bank, Liberation Park Branch
Industrial Bank, Hankou Branch
Bank of Communications, Pacific Branch

AUDITORS

KPMG
Certified Public Accountants

HONG KONG LEGAL COUNSEL

Chiu & Partners
Solicitors



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

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