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China ZhengTong Auto Services Holdings Limited

中國正通汽車服務控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1728)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS OF RESULTS

For the year ended 31 December 2018:

- Revenue increased by approximately 5.6% to approximately RMB37,456 million
- Overall gross profit increased by approximately 19.1% to approximately RMB4,487 million
- Interest and service income from the financial services business amounted to approximately RMB844 million for the year, representing an increase of approximately RMB322 million as compared to the previous year. This segment delivered reportable profit of approximately RMB621 million in 2018, representing a year-on-year increase of 64.3%
- Profit attributable to equity shareholders of the Company increased by approximately 2.8% to approximately RMB1,224 million
- Recommended payment of a final dividend of HK\$0.14 per share (subject to the shareholders' approval at 2019 AGM), together with an interim dividend of HK\$0.10 per share paid in 2018, total dividend of HK\$0.24 per share, dividend payout ratio was around 41.3%

The board of directors (the “**Board**”) of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the “**Company**” or “**ZhengTong**”, together with its subsidiaries, the “**Group**”) is pleased to announce the Group’s annual consolidated results for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

(Expressed in RMB'000)

		For the year ended	
		31 December	
	Note	2018	2017
			(Note)
Revenue	3	37,455,510	35,474,325
Cost of sales		<u>(32,968,683)</u>	<u>(31,705,979)</u>
Gross profit		4,486,827	3,768,346
Other income	4	962,747	418,216
Selling and distribution expenses		(1,036,585)	(1,027,736)
Administrative expenses		(1,650,024)	(733,072)
Profit from operations		2,762,965	2,425,754
Finance costs	5(a)	(910,072)	(700,993)
Share of profit of a joint venture and an associate		36,595	29,030
Profit before taxation	5	1,889,488	1,753,791
Income tax	6(a)	(634,706)	(542,329)
Profit for the year		<u>1,254,782</u>	<u>1,211,462</u>
Attributable to:			
Equity shareholders of the Company		1,224,065	1,190,795
Non-controlling interests		30,717	20,667
Profit for the year		<u>1,254,782</u>	<u>1,211,462</u>
Earnings per share	7		
Basic (RMB cents)		<u>49.9</u>	<u>53.8</u>
Diluted (RMB cents)		<u>49.9</u>	<u>53.8</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Expressed in RMB'000)

	For the year ended	
	31 December	
	2018	2017
		<i>(Note)</i>
Profit for the year	1,254,782	1,211,462
Other comprehensive income for the year (after tax):		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of:		
– financial statements of entities outside the Mainland China	<u>(10,983)</u>	<u>20,786</u>
Other comprehensive income for the year	<u>(10,983)</u>	<u>20,786</u>
Total comprehensive income for the year	<u>1,243,799</u>	<u>1,232,248</u>
Attributable to:		
Equity shareholders of the Company	<u>1,213,082</u>	1,211,581
Non-controlling interests	<u>30,717</u>	<u>20,667</u>
Total comprehensive income for the year	<u>1,243,799</u>	<u>1,232,248</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in RMB'000)

	<i>Note</i>	At 31 December 2018	2017 <i>(Note)</i>
Non-current assets			
Property, plant and equipment		6,324,514	4,477,980
Lease prepayments		1,555,846	1,290,275
Intangible assets		4,366,363	3,675,288
Goodwill		2,006,335	1,998,733
Interest in a joint venture		293,906	275,722
Interests in an associate		14,809	16,398
Receivables from financial services	<i>11</i>	3,880,977	2,478,202
Deferred tax assets		214,688	171,230
Long-term receivables		191,879	–
Other financial assets		410,045	–
		19,259,362	14,383,828
Current assets			
Inventories	<i>9</i>	3,845,727	4,084,168
Trade and bills receivables	<i>10</i>	1,071,509	952,792
Prepayments, deposits and other receivables		9,864,964	7,355,012
Receivables from financial services	<i>11</i>	4,318,729	2,924,012
Pledged bank deposits and balances with central bank		2,139,017	3,686,098
Time deposits		788,515	837,000
Cash and cash equivalents		2,911,395	2,716,220
		24,939,856	22,555,302
Current liabilities			
Loans and borrowings for financial services		5,779,533	4,023,938
Loans and borrowings for non-financial services		9,390,938	9,072,155
Obligations under finance leases		91,273	84,996
Trade and other payables	<i>12</i>	6,726,648	6,338,004
Income tax payables	<i>6(c)</i>	1,813,425	1,419,846
		23,801,817	20,938,939
Net current assets		1,138,039	1,616,363
Total assets less current liabilities		20,397,401	16,000,191

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)**At 31 December 2018**(Expressed in RMB'000)*

	At 31 December	
	2018	2017
		<i>(Note)</i>
Non-current liabilities		
Loans and borrowings for non-financial services	5,405,811	3,705,990
Loans and borrowings for financial services	378,591	–
Bonds payable	903,062	901,463
Deferred tax liabilities	1,052,551	869,171
Obligations under finance leases	–	35,582
Other financial liabilities	32,638	134,353
Long-term payables	299,302	–
	<u>8,071,955</u>	<u>5,646,559</u>
NET ASSETS	<u>12,325,446</u>	<u>10,353,632</u>
CAPITAL AND RESERVES		
Share capital	209,320	193,425
Reserves	11,933,956	10,007,386
Total equity attributable to equity shareholders of the Company	12,143,276	10,200,811
Non-controlling interests	182,170	152,821
TOTAL EQUITY	<u>12,325,446</u>	<u>10,353,632</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 in the People’s Republic of China (the “**PRC**”).

2 CHANGES IN ACCOUNTING POLICIES

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

- (i) HKFRS 9, *Financial instruments*
- (ii) HKFRS 15, *Revenue from contracts with customers*
- (iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

(i) ***HKFRS 9, Financial instruments***

HKFRS 9 replaces *HKAS 39, Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and non-controlling interests and the related tax impact at 1 January 2018.

Retained earnings and non-controlling interests	Impact of adopting HKFRS 9 on opening balance RMB'000
Recognition of expected credit losses on:	
Financial assets measured at amortised cost	(36,481)
Related tax	9,120
	<hr/>
Net decrease in total equity at 1 January 2018	(27,361)
Net decrease in non-controlling interests at 1 January 2018	1,368
	<hr/>
Net decrease in retained earnings at 1 January 2018	<u>(25,993)</u>

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group’s financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 RMB'000	Remeasurement RMB'000	HKFRS 9 carrying amount at 1 January 2018 RMB'000
Cash and cash equivalents	2,716,220	–	2,716,220
Pledged bank deposits and balances with central bank	3,686,098	–	3,686,098
Receivables from financial services	5,402,214	(36,481)	5,365,733
Trade and bills receivables	952,792	–	952,792
Prepayments, deposits and other receivables	7,355,012	–	7,355,012
	<hr/>	<hr/>	<hr/>
Total	20,112,336	(36,481)	20,075,855
	<hr/>	<hr/>	<hr/>

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial adoption of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and balances with central bank, trade and bills receivables, prepayments, deposits and other receivables, receivables from financial services, time deposits and long-term receivables).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	<i>RMB'000</i>
Loss allowance at 31 December 2017 under HKAS 39	55,390
Additional credit loss recognised at 1 January 2018 on:	
– Receivables from financial services	<u>36,481</u>
Loss allowance at 1 January 2018 under HKFRS 9	<u>91,871</u>

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and non-controlling interests as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):
 - the determination of the business model within which a financial asset is held.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) ***HKFRS 15, Revenue from contracts with customers***

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Presentation of contract liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. A contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, advance payments from customers relating to sales of passengers motor vehicles were presented in “receipts in advance” and deferred revenue relating to after-sales services were presented in “other payables and accruals” respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

- “Receipts in advance” and deferred revenue in “other payables and accruals” amounting to RMB540,532,000 and RMB4,696,000 respectively as at 1 January 2018, are now included in contract liabilities.

- b. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018*

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) RMB'000	Hypothetical amounts under HKAS18 (B) RMB'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) RMB'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Trade and other payables			
– Receipts in advance	–	565,810	(565,810)
– Other payables and accruals	1,532,777	1,536,298	(3,521)
– Contract liabilities	569,331	–	569,331
	<u>2,102,108</u>	<u>2,102,108</u>	<u>–</u>
Total current liabilities	2,102,108	2,102,108	–

(iii) *HK(IFRIC) 22, Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

3 REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, provision of after-sales 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 in revenue during the year is as follows:

	For the year ended	
	31 December	
	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of passenger motor vehicles	31,529,209	30,289,320
Provision of after-sales services	4,330,536	3,898,520
Provision of logistics services	479,580	537,724
Sales of lubricant oil	272,364	226,498
Service income from financial services	329,936	203,546
	<u>36,941,625</u>	<u>35,155,608</u>
Revenue from other sources		
Interest income from financial services	513,885	318,717
	<u>513,885</u>	<u>318,717</u>
	<u>37,455,510</u>	<u>35,474,325</u>

4 OTHER INCOME

	Note	For the year ended	
		31 December	
		2018	2017
		RMB'000	RMB'000
Service income		654,911	577,027
Interest income from bank deposits		75,991	22,187
Net gain on disposal of property, plant and equipment		48,024	25,073
Realised and unrealised net gain/(loss) on derivative financial instruments		118,922	(225,447)
Government grants	(i)	48,405	4,573
Others		16,494	14,803
		<u>962,747</u>	<u>418,216</u>

(i) The government grants were received unconditionally from the local government where they reside.

5 PROFIT BEFORE TAXATION

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

	Note	For the year ended 31 December	
		2018 RMB'000	2017 RMB'000
(a) Finance costs:			
Interest on loans and borrowings for non-financial services and bonds payable		883,188	692,645
Finance cost for consideration of business combination	(i)	32,538	–
Other finance costs	(ii)	42,198	47,246
Less: Interest capitalised*		(47,852)	(38,898)
		910,072	700,993
(b) Staff costs:			
Salaries, wages and other benefits		810,663	750,630
Contributions to defined contribution retirement plans	(iii)	73,668	59,050
		884,331	809,680

* The borrowing costs have been capitalised at a rate of 4.35%–7.50% per annum (2017: 4.16%–6.99%).

- (i) It represents the unwinding of interest element of business combination consideration.
- (ii) It mainly represents the interest expenses arising from discounting of bills payable.
- (iii) 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.

	For the year ended 31 December	
	2018 RMB'000	2017 RMB'000
(c) Other items:		
Cost of inventories	31,965,954	31,052,025
Cost of interests *	330,875	154,637
Depreciation	332,137	310,392
Amortisation of lease prepayments	28,554	27,984
Amortisation of intangible assets	193,883	103,607
Operating lease charges	429,706	356,805
Realised and unrealised net (gain)/loss on derivative financial instruments	(118,922)	225,447
Net foreign exchange loss/(gain)	456,471	(228,449)
Allowance for impairment losses of receivables from financial services	86,017	41,099
Listing expenses of a subsidiary	2,268	–
Auditors' remuneration		
– audit service	7,300	7,300
– non-audit service	–	–

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

6 INCOME TAX

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

	For the year ended	
	2018	2017
	RMB'000	RMB'000
Current tax:		
Provision for income tax for the year	706,031	578,320
Deferred tax:		
Origination of temporary differences	(71,325)	(35,991)
	634,706	542,329

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year. 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% (2017:25%).

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	For the year ended	
	2018	2017
	RMB'000	RMB'000
Profit before taxation	1,889,488	1,753,791
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	472,372	438,448
Non-deductible expenses	154,614	94,398
Unused tax losses not recognised	16,869	16,741
Non-taxable income on:		
– Share of profits recognised under the equity method	(9,149)	(7,258)
Income tax	634,706	542,329

(c) **Income tax payables in the consolidated statement of financial position represent:**

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Balance at beginning of the year	1,419,846	1,129,926
Provision for current income tax for the year	706,031	578,320
Payment during the year	(312,452)	(288,400)
	<hr/>	<hr/>
Balance at the end of the year	<u>1,813,425</u>	<u>1,419,846</u>

7 EARNINGS PER SHARE

(a) **Basic earnings per share**

The calculation of basic earnings per share for the year ended 31 December 2018 was based on the profit attributable to equity shareholders of the Company of RMB1,224,065,000 (2017: RMB1,190,795,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2018 of 2,453,012,879 (2017: 2,212,717,736), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2018	2017
Issued ordinary shares at 1 January	2,265,539,420	2,210,200,440
Effect of share options exercised	–	2,106,337
Effect of shares issued for placing	214,824,176	410,959
Effect of purchase and cancellation of own shares	(27,350,717)	–
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	<u>2,453,012,879</u>	<u>2,212,717,736</u>

(b) **Diluted earnings per share**

The calculation of diluted earnings per share for the year ended 31 December 2018 is based on the profit attributable to equity shareholders of the Company of RMB1,224,065,000 (2017: RMB1,190,795,000) and the weighted average number of ordinary shares of 2,453,012,879 (2017: 2,214,936,438) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme matured in 2017, calculated as follows:

Weighted average number of shares (diluted)

	For the year ended 31 December	
	2018	2017
Weighted average number of ordinary shares for the year ended 31 December	2,453,012,879	2,212,717,736
Effect of deemed issue of shares under the pre-IPO employee share option scheme	–	2,218,702
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 31 December	<u>2,453,012,879</u>	<u>2,214,936,438</u>

8 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 and after-sales services through the Group's network of 4S dealerships in the PRC.

2 Supply chain business

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

3 Financial services business

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

(a) Segment results, assets and liabilities

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

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.
- The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other revenue, other net income and finance costs.
- Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.
- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	4S dealership business		Supply chain business		Financial services business		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	35,859,745	34,187,840	751,944	764,222	843,821	522,263	37,455,510	35,474,325
Inter-segment revenue	-	-	-	-	326,683	165,428	326,683	165,428
Reportable segment revenue	<u>35,859,745</u>	<u>34,187,840</u>	<u>751,944</u>	<u>764,222</u>	<u>1,170,504</u>	<u>687,691</u>	<u>37,782,193</u>	<u>35,639,753</u>
Reportable segment profit	<u>1,737,479</u>	<u>1,490,018</u>	<u>126,377</u>	<u>101,457</u>	<u>620,913</u>	<u>377,764</u>	<u>2,484,769</u>	<u>1,969,239</u>
Depreciation and amortisation for the year	513,924	403,707	11,696	14,110	28,954	24,166	554,574	441,983
Reportable segment assets	22,066,386	18,437,763	584,454	308,528	9,714,107	7,235,983	32,364,947	25,982,274
Additions to non-current segment assets during the year	3,470,156	1,194,619	142,880	23,004	86,438	153,232	3,699,474	1,370,855
Reportable segment liabilities	(17,985,325)	(15,618,286)	(169,359)	(200,754)	(6,522,289)	(4,478,777)	(24,676,973)	(20,297,817)
Investment in a joint venture and an associate	-	-	293,906	275,722	14,809	16,398	308,715	292,120

(b) Reconciliations of reportable segment

	For the year ended	
	31 December	
	2018	2017
	RMB'000	RMB'000
Revenue:		
Reportable segment revenue	37,782,193	35,639,753
Elimination of inter-segment revenue	(326,683)	(165,428)
Consolidated revenue	<u>37,455,510</u>	<u>35,474,325</u>
Profit before taxation:		
Reportable segment profit	2,484,769	1,969,239
Elimination of inter-segment profits	(196,376)	(98,795)
Unallocated head office (expenses)/gain	(451,580)	166,124
Other income	962,747	418,216
Finance costs	(910,072)	(700,993)
Consolidated profit before taxation	<u>1,889,488</u>	<u>1,753,791</u>

	At 31 December	
	2018	2017
	RMB'000	<i>RMB'000</i>
Assets:		
Reportable segment assets	32,364,947	25,982,274
Intangible assets	4,366,363	3,675,288
Goodwill	2,006,335	1,998,733
Deferred tax assets	214,688	171,230
Unallocated head office assets	5,938,842	6,346,423
Elimination of inter-segment receivables	(691,957)	(1,234,818)
	<hr/>	<hr/>
Consolidated total assets	44,199,218	36,939,130
	<hr/>	<hr/>
Liabilities:		
Reportable segment liabilities	(24,676,973)	(20,297,817)
Income tax payables	(1,813,425)	(1,419,846)
Deferred tax liabilities	(1,052,551)	(869,171)
Unallocated head office liabilities	(5,022,780)	(5,233,482)
Elimination of inter-segment payables	691,957	1,234,818
	<hr/>	<hr/>
Consolidated total liabilities	(31,873,772)	(26,585,498)
	<hr/>	<hr/>

(c) Geographic information

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

9 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December	
	2018	2017
	RMB'000	<i>RMB'000</i>
Motor vehicles	3,508,903	3,796,651
Automobile spare parts	301,767	258,172
Others	35,057	29,345
	<hr/>	<hr/>
	3,845,727	4,084,168
	<hr/>	<hr/>

- (b) **The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:**

	For the year ended	
	31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of inventories sold	31,963,559	31,040,691
Write down of inventories	9,287	17,843
Reversal of write-down of inventories	(6,892)	(6,509)
	<u>31,965,954</u>	<u>31,052,025</u>

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain motor vehicles as a result of a change in consumer preferences.

10 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	1,070,104	952,792
Bills receivable	1,405	–
	<u>1,071,509</u>	<u>952,792</u>

All of the trade and bills receivables are expected to be recovered within one year. Management has a credit policy in place and the exposure to these credit risk are monitored on an ongoing basis.

Credit risk in respect of trade and bills receivables is limited since credit sales to individuals are offered in rare cases subject to management's approval. The counterparties are mainly banks and financial institutions that will release mortgage loans to the Group. The Group considers such counterparties to have low credit risk.

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

	At 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	1,025,394	917,015
More than 3 months but within 1 year	39,460	29,455
Over 1 year	6,655	6,322
	<u>1,071,509</u>	<u>952,792</u>

11 RECEIVABLES FROM FINANCIAL SERVICES

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Current		
Receivable from retail customers	4,204,798	2,768,794
Receivable from auto dealers	209,329	200,807
Less: Allowance for impairment losses	(95,398)	(45,589)
	4,318,729	2,924,012
Non-current		
Receivable from retail customers	3,927,899	2,488,003
Less: Allowance for impairment losses	(46,922)	(9,801)
	3,880,977	2,478,202
Net receivables from financial services	8,199,706	5,402,214

Receivable from retail customers are expected to be recovered within one to five years. Receivable from auto dealers are expected to be recovered within one year. Management has a credit policy in place and the exposure to these credit risk are monitored on an ongoing basis.

The counterparties are mainly a large group of individual customers. The Group maintains the credit risk grading to categorise exposures according to their degree of risk of default. Expected credit loss model is used to determine the allowance for impairment losses.

(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 impairment losses, is as follows:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Within 3 months	1,786,451	2,218,782
More than 3 months but within 1 year	4,114,413	1,447,214
More than 1 year	2,298,842	1,736,218
	8,199,706	5,402,214

(b) Impairment of receivables from financial services

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Balance at 31 December 2017 under HKAS 39	55,390	36,139
Impact on initial application of HKFRS9	36,481	–
Balance at 1 January 2018	91,871	36,139
Impairment loss recognised	86,017	41,099
Uncollectible amounts written off	(36,364)	(21,848)
Recovery after write-off	796	–
	<hr/>	<hr/>
Balance at 31 December 2018	142,320	55,390

12 TRADE AND OTHER PAYABLES

	31 December 2018 <i>RMB'000</i>	1 January 2018 ⁽ⁱ⁾ <i>RMB'000</i>	31 December 2017 ⁽ⁱ⁾ <i>RMB'000</i>
Trade payables	1,158,484	730,081	730,081
Bills payable	3,440,016	3,997,869	3,997,869
	<hr/>	<hr/>	<hr/>
	4,598,500	4,727,950	4,727,950
Receipts in advance	–	–	540,532
Contract liabilities	569,331	545,228	–
Other payables and accruals	1,532,777	1,053,202	1,057,898
	<hr/>	<hr/>	<hr/>
Payables due to related parties	26,040	11,624	11,624
	<hr/>	<hr/>	<hr/>
Trade and other payables	6,726,648	6,338,004	6,338,004

- (i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

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

	At 31 December	
	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 3 months	4,267,235	4,632,655
Over 3 months but within 6 months	327,398	90,765
Over 6 months but within 12 months	3,867	4,530
	<hr/>	<hr/>
	4,598,500	4,727,950

13 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interim dividend declared and paid of HK\$0.10 per ordinary share (2017: nil)	213,904	–
Final dividend proposed after the end of the reporting period of HK\$0.14 per ordinary share (2017: HK\$0.14 per ordinary share)	294,489	281,271
	<u>508,393</u>	<u>281,271</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.14 per ordinary share (2017: HK\$0.10 per ordinary share)	283,413	193,215

(iii) Other dividends

During the year of 2018, nil dividend was declared and paid in cash to non-controlling shareholders (2017: RMB6,676,000).

14 CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China ZhengTong Auto Services Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) act as a major dealer of various luxury automobile brands and a strategic partner of the manufacturers of those luxury automobile brands. The Group is kept abreast of the latest industry trend and market changes, analysed the changes in customers’ preference and explored innovative services. Leveraging its diversified brand portfolio, reasonable sales network, comprehensive operation platform and advanced service philosophy, the Group has determined to be a world-class automobile servicing brand.

In 2018, the Group was committed to developing luxury and ultra-luxury auto sales and traditional after-sales services. The Group actively expanded its distribution network for prestigious brands and fully utilized its advantages in financing and supply chains to strengthen its core competitiveness. The Group optimized its business scope covering the entire life cycle of vehicles from sales of new cars, provision of aftersales services, replacement and trading of pre-owned cars so as to promote synergies among different business segments. In addition, the Group adopted a new management model of sophisticated management philosophy. The streamlined management effectively improved the results of the Group. For the year ended 31 December 2018, the Group recorded revenue and gross profit of approximately RMB37,456 million and RMB4,487 million, respectively, representing increases of approximately 5.6% and 19.1% as compared to the corresponding year, respectively. Profit attributable to equity shareholders of the Company was approximately RMB1,224 million and the basic earnings per share was approximately RMB49.9 cents, representing increase of approximately 2.8% and decrease of approximately 7.2% as compared to the corresponding year, respectively.

(I) Sales of new automobiles business

In 2018, under our prudent development strategy, we expanded our distribution network for selected luxury and ultra-luxury brands to increase the proportion of brands with higher profitability. The revenue and profit of Group remained strong and recorded growth. The Group managed to strike a balance between “quantity” and “quality” in business growth under fierce market competition. For the year ended 31 December 2018, the Group recorded sales volume of new automobiles of 112,574 units, representing a year-on-year increase of approximately 3.3%, including 86,400 units luxury and ultra-luxury branded automobiles with a year-on-year increase of approximately 8.0%. The Group’s sales of new car models of the major luxury brand, under its dealership, including 5 Series and X3 of BMW, GLC L and new C Class of Mercedes-Benz recorded remarkable growth, significantly support the growth in sales of new cars and gross profit. The sales and gross profit margins of new cars of various brands reflected their different market competitiveness. While seeking to improve the sales and gross profit margins of new cars, the Group also focused on the growth of associated business such as new car insurance, vehicle finance, car trimming. In 2018, the average gross profit margin of new car sales was approximately 6.1%, representing a year-on-year increase of 1.2 percentage points. The competition in the luxury automobile market is expected to be keener. The Group will maintain the good cooperation with automobile manufacturers and further expand the associated business of vehicle finance and modification to improve the profitability of the sales of new cars.

(II) After-sales services business

In 2018, revenue and gross profit of after-sales services of the Group amounted to approximately RMB4,331 million and approximately RMB2,003 million, representing an increase of 11.1% and 8.9% as compared to the corresponding year, respectively. The gross profit margin was approximately 46.2%. The steady growth of after-sales services business in 2018 was mainly attributable to the rapid growth of car ownership. In 2018, the Group served 1,295,657 units of automobiles in aggregate, representing an increase of approximately 14.8% as compared to the corresponding year.

In 2018, the Group was committed to focusing on customers' experience and service quality and enhancing the core competitiveness of its service brands. In addition to the significant improvement of customers satisfaction and loyalty, the Group was also awarded several prizes by luxury car manufacturers such as BMW, Benz, Porsche, Jaguar and Land Rover, Volvo, Audi for its service quality and integrated operation.

(III) Pre-owned car business

The automobile market has evolved from quantity growth to quality growth. The significance of used cars business was increasingly important for authorised dealers. In 2018, the Group adopted various measures to develop the used cars business and proactively studied the business model suitable for authorised dealers. With advanced IT platform and management system, the business of used cars of the Group significantly grew in terms of quality and quantity.

In 2018, the Group focused on the promotion of trade-in of used cars when selling new cars by providing competitive offers to encourage the replacement of used cars. The Group provided tailored services and products in accordance with their requirement of individual customers, resulting in average used car replacement rate of 30% in major first-tier cities. We promoted the used car business in line with the sales of new cars. The synergy effect between business of used cars and new cars became significant.

In order to improve customer experience, the Group coordinated internal resources and regulated the operation flow to launch used car IT platform and management system in 2018. The management system centralized the management of the entire operation of used car business in the shops of the Group from customer reception, offer, evaluation, pricing, warehousing to delivery. The operating efficiency and profitability of the used car business were significantly improved.

(IV) Auto finance technology segment

The auto consumption finance market of China is expected to enter into a rapid growth period. In 2017, total sales value of passenger automobiles of China exceeded RMB4,200 billion with the average permeability rate of automobile finance of 30%. Among which, the permeability rate of luxury automobiles exceeded 40%. Compared with mature markets where average permeability rate are 60%, China's auto finance permeability rate is still low. The overall loan value in China's auto finance market is expected to increase in 5 years with a compound growth rate exceeding 18%. The data indicates consumers of luxury automobile tend to use auto financial instruments for purchasing the automobile. Driven by finance technology, a new consumption pattern will be present in the PRC automobile market in the future. New consumption patterns, including convenient online and offline automobile purchase, intelligent auto finance and diversification of automobile consumption, will popularize.

In 2018, interest and service income from the financial services business amounted to approximately RMB844 million (from external customers), with a year-on-year increase of 61.7%. Reportable profit of such segment amounted to approximately RMB621 million, representing a year-on-year increase of 64.3%. Reportable assets amounted to RMB9,714 million, representing an increase of 34.2% by comparing with that at 31 December 2017. Among the Company's subsidiary, Shanghai Dongzheng Automobile Finance Co., Ltd. ("**Dongzheng AFC**") significantly optimized its asset structure in 2018, and its retail market share increased further. Its loans and advances to customers increased from RMB5,869 million to RMB8,426 million, with a year-on-year growth rate of 43.6%. In 2018, the non-performing loans ratio of Dongzheng AFC was 0.27%, which was lower than the industry average.

In addition, a completely closed-loop auto finance technology ecosystem developed by the Group has taken into shape, aiming to provide customers with one-stop auto finance and related services and offer automobile related financial products covering new automobiles and pre-owned automobiles. The platform involves:

- Dongzheng AFC holding an auto financial license granted by the China Banking and Insurance Regulatory Commission (the "**CBIRC**", formerly known as "China Banking Regulatory Commission") is the only auto finance company with a dealership background in China;
- Shenzhen Zhengyuan Automobile Technology Co., Ltd. ("**Zhengyuan Technology**") specializing in big-data risk control and ABS cloud technology;
- Xiamen International Financial Asset Exchange Co., Ltd. ("**Xiamen International Financial Asset Exchange**") providing an online asset transaction platform; and
- Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. ("**Dingze Leasing**") and Dingze Insurance Agency Co., Ltd. ("**Dingze Insurance Agency**") providing financial leasing, insurance brokerage and other related services.

The Group has been more mature and clearer in exploring the model of automobile finance consumer loan and future development direction. The burgeoning growth of auto finance market has provided a broader development for financial institutions. Under the guidance of enhanced regulatory policies, the market environment has been further purified, and the licensed financial institutions benefited from the standardization of operation. The market reshuffle will facilitate the “good money drives out the bad” for the auto finance service institutions, and will also be helpful for the licensed financial institutions’ business to remain reasonable and healthy. Dongzheng AFC has gained the recognition for its compliance operation from the regulators.

Covering National Offline Auto Finance Channels by Licensed Financial Institution

Dongzheng AFC obtained the financial business permit from the CBIRC and commenced its operation in March 2015. Dongzheng AFC obtained the approval for capital increase from the CBIRC on 1 June 2017. The Group completed the capital injection into Dongzheng AFC by the end of 2017, as a result, its registered capital increased from RMB0.5 billion to RMB1.6 billion. With the rapid growth of the auto finance market in China, Dongzheng AFC further improved its capital adequacy ratio after the capital increase, which will facilitate its future business expansion and profit improvement.

Dongzheng AFC has established a dealer network with a broad geographical coverage in China. The number of dealers within the sales network grew from 351 as of 31 December 2017 to 1,280 as of 31 December 2018. The geographical coverage of the dealer network reached 182 cities in China as of 31 December 2018, comprising Beijing, Shanghai, Shenzhen, Guangzhou as well as 36 second-tier cities and 142 third-tier and other lower-tier cities. Dongzheng AFC aims to further strengthen our brand recognition through the Wechat official account and mini-programs. Dongzheng AFC has also established strategic cooperation with certain luxury-brand automakers to expand customer base.

Product Design

In 2018, the Group has recorded a growth in the size of high quality loan assets by continuing to leverage on its unique advantages in product design, risk control and channel promotions. By further identifying the needs of customers inside and outside the Group, Dongzheng AFC diversified its products offerings and modified the product design, thereby catering to the needs of end customers. Through the cooperation for auto finance with major OEMs and long-term strategic cooperation with dealership groups, Dongzheng AFC continuously broadened the channels for its retail loan business. Furthermore, Dongzheng AFC also developed the outreach business to further explore potential financial needs of pre-owned automobiles.

Risk Control

In respect of risk control, by combining the Credit Reference Center of the People's Bank of China with the big-data financial technology risk control system, the Group leveraged its experience in traditional bank credit and internet financial technology to develop a three-in-one risk management structure involving customers, merchants and transactions.

Creating Comprehensive Auto Finance Fintech Platform by Professional Team

Zhengyuan Technology, established in December 2017, was committed to exploring the online auto finance fintech field and establishing a comprehensive loan support platform, which financial assets and capitals are highly-efficient connected to the financial technology.

Zhengyuan Technology has focused its fintech technology core on system connection for assets-end and capital-end: by empowering the B-end, the big-data risk management system will shortlist high quality customers, and connect to insurance institutions and online electronic certifications to refine the performance guarantee of a single trade, while the ABS cloud technology ensuring the high speed transfer of auto financial assets that in line with standardized ABS among financial institutions. The fully connected systems and the information-sharing streams will allow funds with different returns and risk preferences to match quickly, and will generate a unique technology power for the auto finance industry.

Zhengyuan Technology has fully developed and launched the trading systems for the entire trading process. The core system has been fully constructed, and will enable the big-data risk management system to achieve the speedy trading approvals online. Meanwhile, end-customers were able to enjoy the speedy approval and contracted lending service on distant system because of the successful connection between systems and the CFCA.

Zhengyuan Technology was introducing financial institutions to carry out business linkage based on the support of Dongzheng AFC. With more capital injected, the increase of loan assets will not only be helpful in market expansion, but the increase in the number of end-customer samples will also drive the improvement of the database for its own risk control system. Currently, various trusts of the financial institutions have been integrated while account consolidation is in process.

Within the entire closed-loop financial ecosystem, trading performance guarantee is crucial in the fundamental credit enhancement step, so Zhengyuan Technology has signed a strategic cooperation agreement with PICC after the interim period. While the system docking is in progress, the electronic policy implemented performance insurance with real-time full coverage for each loan business, and has effectively reduced the risk of capital loss, in addition laying a foundation for subsequent assets transfer.

After Zhengyuan Technology has accomplished its assets and capital accumulation, it will empower other subsidiaries of the Group with Fintech. In an effort to realize information sharing and integrate different operations, the Group will create a multi-win situation amid the financial closed-loop ecology.

As the financial asset transaction circulation platform, Xiamen International Financial Asset Exchange, is also a key part of the closed-loop. The cumulative acceptance of assets has exceeded RMB100 billion. Fundraising through ABS platform has a lower cost and higher efficiency. In order to quickly enlarge its coverage of end-customers and to create a new high in the field of auto finance industry, the Group will expand the channels of auto financing asset securitization, and accelerate assets circulation.

Financial Leasing and Insurance Brokerage have been further refined

Under the synergy effect of the Group, Dingze Leasing has made substantial progress in its business. In response to the development trend and industry rules of the small B-end of the automotive industry chain, the Company has created and launched the OCF financial concept and new financial service product U-car (U享車) at the same time. It has been recognised by the market dealer groups and 4S stores, and has achieved a great performance.

In 2018, the insurance brokerage business has made a comprehensive upgrade management for new insurance business, renewal insurance business and extended warranty business of the Group's network. Through the internal management integration, the management of division and assessment has been enhanced. Therefore, management efficiency has been released, and insurance benefits are reflected.

Finally, Dongzheng AFC has published a prospectus on 14 March 2019. For those who are interested in the business and financial conditions of Dongzheng AFC, the prospectus is available for viewing from the website of Dongzheng AFC at www.dongzhengafc.com.

(V) Supply chain business

In 2018, Shengze Jietong Supply Chain Co., Ltd. (“**Shengze Jietong**”) continued to focus on the cooperation with FAW and Dongfeng Group in respect of transportation business. In 2018, two new automotive manufacturing sites of FAW-Volkswagen in Qingdao and Tianjin commenced operation and FAW-Hongqi laid its three-year transportation plan. In response to the above development of FAW, Shengze Jietong promptly purchased transportation vehicles which fulfilled national standards for operational purpose, so as to satisfy the logistics needs arising from the new manufacturing sites and boost the logistics business with FAW-Volkswagen. After securing water transportation business from Dongfeng Nissan in 2017 and expansion into railway transportation business, which was based in Guangzhou, in 2018, Shengze Jietong built a comprehensive transportation network comprising road, railway and water transportation. In addition, in response to the development of new energy vehicles, Shengze Jietong provided various new energy

vehicles manufacturers with integrated supply chain logistics planning consultation and transportation services for pre-production, production and post-production of new energy vehicles. With an aim to fulfill growing demand for imported vehicles, Shengze Jietong established a one-stop transportation channel in ports in Tianjin and Shanghai to provide convenient logistics services with quick access to major cities in China.

In 2019, Shengze Jietong intends to further promote the business cooperation with existing brands and expand its logistics business with large independent brands in China through establishing joint ventures with large logistics companies or mergers and acquisitions. Leveraging on the advantages brought by the automobile dealership business of Zhengtong Group, its parent company, Shengze Jietong is well-positioned to secure transportation business with those dealership brands in China. Furthermore, according to the development plan of Wuhan Municipal Government to develop Wuhan into the capital of vehicle manufacturing (大車都), Shengze Jietong intends to make use of its parts warehousing and the advantage of distribution resources to promote logistics business between its parts manufacturing factories and the four leading automotive manufacturers in China.

Looking forward, utilizing the resources gained from the businesses with FAW, Dongfeng Group and other brands and leveraging on the advantages created by the new logistics site in Wuhan in terms of its river transportation business and the premium location at national railway and highway transportation hub, Shengze Jietong strives to become the most influential supply chain logistics enterprise in Central China.

(VI) Network development

Balanced and reasonable deployment of the nationwide dealership network for luxury brands complemented by ongoing optimization brand portfolio and stable development

As a leading dealership group of luxury brands in China, the Group focuses on dealership of luxury and ultra-luxury branded automobiles, including Porsche, Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Cadillac and Infiniti. The Group also operates dealership stores of mid-end market brands, including FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As at 31 December 2018, the Group operated 140 dealership stores in 40 cities across 16 provinces and municipalities in China.

In 2018, the Group had six new operating dealership stores for luxury automobiles as follows,

Brand	City/Nature of Store
Benz	Foshan 4S Shenzhen Showroom
BMW	Beijing BMW 4S Changsha (BMW Motorcycle) Urban Showroom
Hongqi	Shanghai 4S, Wuhan 4S

At 31 December 2018, there are 12 dealership stores under development or to be developed, which are franchised by core luxury automobile brands, including Porsche, Benz, Audi, BMW, Jaguar and Land Rover as well as Volvo. Authorized dealership stores to be opened can enhance our competitive advantages in traditional provinces and regions, including Guangdong, Hubei, Hunan and Sichuan, as well as regions with potential for rapid development, such as Chongqing, Yunnan, Jiangsu and Liaoning. The expansion in geographical coverage will further enhance Group's advantages in terms of scale and channels.

The following table sets forth the details of our dealership stores as at 31 December 2018:

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S store for luxury and ultra-luxury brands	100	11	111
4S store for mid-to high-end brands	14	0	14
Urban showroom for luxury brand	18	0	18
Authorized repair service centre for luxury brands	7	1	8
Pre-owned automobile centre	1	0	1
	<hr/>	<hr/>	<hr/>
Total	140	12	152
	<hr/>	<hr/>	<hr/>

As a leading strategic partner of manufacturers of luxury brands and ultra-luxury brands in the PRC, the Group will continue its network expansion strategies with its focus on a balanced layout of dealership stores of core luxury brands and a refined brand structure in its pursuit of prudent development. Meanwhile, the Group will integrate industry resources by seeking appropriate strategic merger and acquisition opportunities and innovative strategic operation cooperation scheme to rapidly enlarge its business scale and enhance its profitability.

(VII) Innovation of management and improvement of operational quality

In 2018, in line with the development trend of the industry, the Group accelerated its transformation and upgrading and refined its management. The Group improved its management through various measures to streamline the business processes for enhancing the Group's competitiveness.

Establishment of Smart 4S Stores

While the industry is under the process of informatization and technicalization, the Group has also been engaged with the theory and practice of how to improve its services and enhance customer experiences with the aid of technologies. To this end, the Group independently developed a new generation of Cloud Platform (雲平台) operation

management system, integrating customer service, data analysis, product deployment, and business management through technological means. By linking information islands and building up communication channels between front line business at stores and back office management, the order, door-to-door delivery and online payment by customers, all through one click, can be realized. The scope of business and service have been expanded and the customer experience has been greatly enhanced.

Integration of Marketing Activities

The Group adopted new approaches of management in 2018 by integrating marketing activities of dealership stores of our brands and establishing a data bank for customer communication with real-time assessment on the effectiveness of marketing activities of stores for modification. The facilities effectively lowered the cost of customer acquisition and could collect more sales information.

Enhancement of Operational Quality

In order to enhance customer satisfaction, the Group conducted self-evaluation in 2018. The sales activities and after-sales services of stores were inspected by site visit, mystery customers, follow-up self-inspection, brand supervision and stores improvement. The operational quality of the Group has enhanced at all levels.

Classification Management of Stores

In 2018, the Group introduced an operation assessment system to analyse all key operation figures. The results can allow the stores managers to identify and resolve operational problems and improve their profitability by devoting necessary resources to the stores in need.

Exploration of Innovative Approaches for Sales Business

Leveraging its successful partnership with manufacturers of dealership brands, the Group will proactively explore the innovative business approach of contract-sale of targeted automobile models, to effectively address market changes and realise mutual benefits with our partners.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group recorded a revenue of approximately RMB37,456 million, representing an increase of approximately 5.6% as compared to the revenue of approximately RMB35,474 million in 2017. The increase was mainly due to an increase in number of dealership stores, steady sales of new automobiles and rapid increase in automobile financing revenue in the year under review.

Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other business. In 2018, revenue from the sales of new automobiles amounted to approximately RMB31,529 million, representing an increase of approximately 4.1% as compared to approximately RMB30,289 million in 2017, and accounted for approximately 84.2% and 85.4% of the total revenue in 2018 and 2017, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles increased by approximately 6.0% to RMB28,383 million from approximately RMB26,774 million in 2017, accounting for 90.0% and 88.4% of revenue from the sales of new automobiles in 2018 and 2017, respectively.

Revenue from the after-sales services business was approximately RMB4,331 million, representing a growth of approximately 11.1% as compared to approximately RMB3,899 million in 2017. In 2018, revenue from the after-sales services business accounted for approximately 11.6% of our total revenue, representing an increase of approximately 0.6 percentage point in revenue from the after-sales services business.

Cost of sales

For the year ended 31 December 2018, the Group's cost of sales increased by approximately 4.0%, which was lower than the increase in revenue, to approximately RMB32,969 million as compared to approximately RMB31,706 million in 2017. In 2018, the cost of sales for new automobiles increased by approximately 2.7% to approximately RMB29,604 million from approximately RMB28,815 million in 2017. Cost of the after-sales services business increased by approximately 13.1% to approximately RMB2,328 million from approximately RMB2,059 million in 2017.

Gross profit and gross profit margin

For the year ended 31 December 2018, the Group's gross profit increased by approximately 19.1% to RMB4,487 million from approximately RMB3,768 million in 2017, and the Group's gross profit margin grew by approximately 1.4 percentage points to approximately 12.0% from 10.6% in 2017.

The Group's gross profit was principally generated from after-sales services, sales of new automobiles business and automobile financing services. In 2018, gross profit of sales of new automobiles increased by approximately 30.6% to approximately RMB1,925 million from approximately RMB1,474 million in 2017; gross profit margin of sales of new automobiles increased to 6.1% from approximately 4.9% in 2017. Gross profit of sales of luxury and ultra-luxury branded automobiles boosted by approximately 35.3% as compared to last year to approximately RMB1,891 million, and gross profit margin of sales of luxury and ultra-luxury branded automobiles increased to 6.7% from 5.2% in 2017, such boost was mainly due to entering into the new product cycle of dealership brands. In 2018, gross profit of our after-sales services business was approximately RMB2,003 million, representing an increase of approximately 8.9% as compared to last year, and gross profit margin of after-sales services business decreased by approximately 1 percentage point to approximately 46.2% from approximately 47.2% in 2017.

Selling and distribution expenses

For the year ended 31 December 2018, the Group's selling and distribution expenses slightly increased by approximately 0.9% to approximately RMB1,037 million from approximately RMB1,028 million in 2017.

Administrative expenses

For the year ended 31 December 2018, the Group's administrative expenses amounted to approximately RMB1,650 million, representing an increase of approximately 125.1% over approximately RMB733 million in 2017. Such increase was primarily due to an exchange loss incurred from the depreciation of Renminbi during the year.

Profit from operations

For the year ended 31 December 2018, the Group's profit from operations increased by approximately 13.9% to approximately RMB2,763 million from approximately RMB2,426 million in 2017, and the operating profit margin was approximately 7.4%, representing an increase of approximately 0.6 percentage point over approximately 6.8% in 2017.

Income tax expenses

For the year ended 31 December 2018, the Group's income tax expenses amounted to approximately RMB635 million and the effective tax rate was approximately 33.6% (2017: 30.9%).

Profit for the year

For the year ended 31 December 2018, the Group's profit for the year increased by approximately 3.6% to approximately RMB1,255 million from approximately RMB1,211 million in 2017. During the year, profit margin was kept at 3.4% as same level as in 2017.

Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 31 December 2018, the Group's current assets amounted to approximately RMB24,940 million, representing an increase of approximately RMB2,385 million as compared to the current assets of approximately RMB22,555 million as at 31 December 2017. Such increase was mainly due to increase in receivable in line with growth in 4S dealership and auto finance business.

As at 31 December 2018, the Group's current liabilities amounted to approximately RMB23,802 million, representing an increase of approximately RMB2,863 million as compared to the current liabilities of approximately RMB20,939 million as at 31 December 2017, which was mainly due to increase in loans and borrowings for financial services in line with growth in auto finance business.

Cash flow

As at 31 December 2018, the Group had cash and cash equivalents amounting to approximately RMB2,911 million, representing an increase of approximately RMB195 million over approximately RMB2,716 million as at 31 December 2017. The Group's transactions and monetary assets were principally conducted in Renminbi. The Group's primary uses of cash were 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 year ended 31 December 2018, the Group had net cash inflow of approximately RMB776 million generated from its operating activities (2017: net cash outflow from operating activities approximately RMB866 million), which was primarily due to the effective control of inventories.

Capital expenditure and investment

For the year ended 31 December 2018, the Group's capital expenditure and investment were approximately RMB2,815 million (2017: RMB1,284 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 RMB3,846 million as at 31 December 2018, decreased by approximately RMB238 million when compared with RMB4,084 million as at 31 December 2017. Such change was due to the effective control in the inventories of new automobiles by the Group based upon market situation. The Group's average inventory turnover days of 2018 increased by 2.9 days to 44.0

days from 41.1 days for 2017. The following table sets forth our average inventory turnover days for the year indicated:

	For the year ended	
	31 December	
	2018	2017
Average inventory turnover days	44.0	41.1

Risks of foreign exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans 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 loans repayment. As at 31 December 2018, a financial liability of RMB33 million measured at fair value was recognised by the Group on the cross currency swap, and other financial assets of RMB25 million (excluding investment portfolio) measured at fair value was recognised (at 31 December 2017: a financial liability of RMB134 million).

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 31 December 2018, the Group's cash and bank deposits were approximately RMB5,839 million (including: pledged bank deposits and balances with central bank of approximately RMB2,139 million, time deposits of RMB789 million and cash and cash equivalents of RMB2,911 million), representing a decrease of approximately RMB1,400 million, from approximately RMB7,239 million as at 31 December 2017. As at 31 December 2018, loans and borrowings, obligations under finance leases, and bonds payable of the Group amounted to approximately RMB21,949 million (at 31 December 2017: approximately RMB17,824 million). Save as loans and borrowings, obligations under finance leases, and bonds payable of approximately RMB12,080 million that bear fixed interest rates, other loans and borrowings bear floating interest rates. As at 31 December 2018, net gearing ratio of the Group was approximately 130.7% (at 31 December 2017: approximately 102.2%). Net gearing ratio was calculated as loans and borrowings, obligations under finance leases, and bonds payable less cash and bank deposits divided by total equity. The increase in the ratio was mainly attributable to the growth in the scale of the Group's business.

Pledged assets

The Group has pledged its assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 31 December 2018, the pledged assets of the Group amounted to approximately RMB5,443 million (at 31 December 2017: approximately RMB5,926 million).

Material acquisition

As disclosed in 2017 annual report, on 23 December 2017, the Group entered into an agreement on strategic operation management cooperation scheme (“SOMCS”) with independent third parties, which was effective from 1 January 2018 for 10 years. The Group has obtained the right to engage in the 4S business of 10 BMW/Mini brands stores during the 10 years’ period. Such SOMCS constitutes a business combination. For further information, please refer to the Company’s announcement dated 23 December 2017.

Investments held in foreign currency and hedging

For the year ended 31 December 2018, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group’s working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

Employees and remuneration policies

As at 31 December 2018, the Group had a total of 12,353 employees in China (at 31 December 2017: 10,342 employees). The staff costs incurred for the year ended 31 December 2018 were approximately RMB884 million (2017: approximately RMB810 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 for granting options to eligible employees as incentives or rewards for the contribution to the Group.

FUTURE OUTLOOK AND STRATEGIES

China’s macroscopic economy has remained its moderate growth. Due to the steady growth of household disposable income, the consumption upgrade although the growth of automobile market shows signs of slow-down. The sales of automobile market has remained high for years and car ownership is high. In a mature market, buyers have stronger bargaining power than sellers. Market players seek business growth in quality rather than quantity. In a buyer’s market, customers have higher demand on the quality and services of automobile products. The demand for professionalism and diversity has pressed dealers to consistently enhance their services and standards. The Group follows the trend of the industry to enrich its services and products from the perspective of customers’ needs, expand service channels, in order to provide best consumption experience for customers by the advantages of diversified portfolio of luxury brands, relatively extensively national network and industry-leading platform of automobile financing. The Group will forge core competitiveness utilizing strengths in financial business by developing used cars business in full swing and proactively exploring new approaches of marketing to well prepare for the competition. The Group will effectively expand business channels and marketing network to tap in the enlarging luxury brand market. The Group will also adopt innovative management approach to optimize operation efficiency to create higher value for shareholders, staff and the community.

EVENTS AFTER THE REPORTING PERIOD

Cancellation of Shares

In November 2018, a total of 1,922,000 shares (those repurchased by the Company during the year at prices ranging from HK\$4.22 to HK\$4.59 per Share) were settled during the year and were cancelled on 18 January 2019.

PROPOSED FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company on the forthcoming annual general meeting expected to be held on 31 May 2019 (the “**2019 AGM**”) for the distribution of a final dividend of HK\$0.14 per share (“**Final Dividend**”) for the year ended 31 December 2018 payable to the shareholders of the Company whose names are listed in the register of members of the Company on 13 June 2019. The proposal for the distribution of the Final Dividend is subject to the consideration and approval by the shareholders of the Company at the 2019 AGM. Subject to the said approval, the Final Dividend will be paid in cash to the shareholders of the Company on or around 27 June 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019 (both days inclusive) and from Tuesday, 11 June 2019 to Thursday, 13 June 2019 (both days inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the 2019 AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration before 4:30 p.m. on Monday, 27 May 2019. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the 2019 AGM), unregistered holders of shares of the Company shall lodge share transfer documents with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Monday, 10 June 2019.

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

Repurchase of Shares

In April 2018, a total of 37,397,000 Shares (those repurchased by the Company during the year at prices ranging from HK\$5.81 to HK\$6.50 per Share) were settled and cancelled by the Company during the year. The aggregate amount paid by the Company for such repurchase cancelled on 23 May 2018 was approximately HK\$229 million.

In November 2018, a total of 1,922,000 Shares (those repurchased by the Company during the year at prices ranging from HK\$4.22 to HK\$4.59 per Share) were settled during the year. The aggregate amount paid by the Company for such repurchase cancelled on 18 January 2019 was approximately HK\$8.51 million.

The Shares repurchased were cancelled and accordingly the issued share capital of the Company was reduced. The repurchase of the Company's Shares during the year were effected by the Directors pursuant to the mandate granted by Shareholders at 2017 and 2018 annual general meetings of the Company, with a view to benefiting Shareholders as a whole by enhancing the net asset value per Share and earnings per Share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PLACEMENT OF NEW SHARES AND USE OF PROCEEDS

Based on the placing agreement dated 15 December 2017, the Company completed the placing of 50,000,000 new Shares on 28 December 2017, which represent approximately 2.21% of 2,265,539,420 the issued Shares of the Company immediately after the completion as enlarged by the issue of the placing Shares, at the placing price of HK\$7.60 per placing Share. For details of this placing, please refer to the announcements dated 15 December 2017 and 28 December 2017. The net proceeds from the placing were approximately HK\$377 million, which the Company totally dedicated to the development of our fin-tech platform. For the year ended 31 December 2017, no net proceeds from the placing were utilized. For the year ended 31 December 2018, around HK\$123 million has been utilized as planned, and the remaining funds will be fully utilized on or before 31 December 2019 in accordance with the intended use.

Based on the placing agreement dated 11 January 2018, the Company completed the placing of 226,000,000 new Shares on 19 January 2018, which represent approximately 9.07% of the 2,491,539,420 issued Shares of the Company immediately after the completion as enlarged by the issue of the placing Shares, at the placing price of HK\$7.70 per placing Share. For details of this placing, please refer to the announcements dated 11 January 2018 and 19 January 2018. The net proceeds from the placing were approximately HK\$1,727 million, which the Company totally dedicated to the development of auto finance business. During the six months ended 30 June 2018, the funds has been fully utilized as planned.

CORPORATE GOVERNANCE

The Board believes that maintaining good corporate governance is crucial to increase investors' confidence and safeguard shareholders' interests. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). The Board is of the view that throughout the year ended 31 December 2018, the Company has complied with the respective code provisions ("**Code Provisions**") of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Securities Dealing Code regarding securities transactions of the directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Dealing Code and the Model Code during the year ended 31 December 2018.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2018 have been reviewed by the audit committee of the Company (the "Audit Committee"). The Audit Committee comprises three independent non-executive directors, namely, Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan.

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement is available for viewing on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.zhengtongauto.com>) and the annual report for the year ended 31 December 2018 of the Company containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises Mr. WANG Muqing (Chairman), Mr. WANG Kunpeng, Mr. KOH Tee Choong, Mr. LI Zhubo, Mr. WAN To and Mr. SHAO Yong Jun as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.