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)
（根據開曼群島法律註冊成立的有限公司）

Stock Code 股份代號：1728

2023
INTERIM REPORT
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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2023, the automotive industry in China moved quickly to adapt to changes. The automobile dealership industry also experienced various pressures and challenges. Despite an overall insufficient market demand due to factors such as changes in the China VI A standard and the price adjustment of new energy vehicles, the Group continued to focus on developing the luxury and ultra-luxury branded automobile sales business and after-sales service business, and was still able to maintain relatively stable operating results, with each of the core brands such as BMW, Mercedes-Benz, Porsche, Audi and Jaguar Land Rover having completed the wholesale and retail assignments of the OEMs.

For the six months ended 30 June 2023, the Group recorded a revenue of approximately RMB12,310 million, representing a period-on-period growth of approximately 11.2%, and gross profit of approximately RMB630 million, representing a period-on-period decrease of approximately 33.6%.

In the first half of 2023, the stores of the Company received a total of 193 awards from automobile manufacturers, local governments, industry media and industry associations, among which 165 were awarded by manufacturers, while 28 were awarded by local governments, media and industry associations.

The following is a review of the business development of the Group's various business sectors in the first half of 2023, and the progress made in improving management:

(I) Automobile dealership segment

1. Sales of new automobiles

In the first half of 2023, under a wave of promotion and fierce competition in the industry (such as the rise of independent brands and new energy vehicles, and the price-for-volume strategy adopted by automobile companies to contend for market share), as well as the pressure to clear inventory arising from changes in the China VI B emission standard, the industry saw an increase in the pressure of price wars and consumers increasingly adopting a wait-and-see attitude. In the first half of this year, the domestic passenger vehicle market recorded retail sales of 9.524 million units, representing a period-on-period increase of 2.7%. Despite a better performance in scale, market consumer sentiment and prices may take time to recover.

In the face of a volatile market environment, the Group responded proactively by focusing on enhancing quality and improving efficiency, striving to achieve both quantitative and qualitative growth. The Group continued to enhance its communication and collaboration with brand manufacturers, closely following their sales rhythm, and striving for more high-quality commercial vehicle resources while increasing sales volume. During the period, the Group completed the upgrading of 9 core brand stores and showrooms on schedule, and upgraded the software and hardware facilities to the latest standards of manufacturers, so as to comprehensively improve customers' vehicle purchase experience and establish a premium brand image.

The Group gave full play to the advantages of its network coverage and strengthened resources sharing via the coordination of regional resources to meet customers' geographical and vehicle model needs; actively expanded its supply chain business with major customers and established sound cooperative relationships with core major customers to promote incremental business growth and facilitate an increase in business scale; further strengthened sales leads management, enhanced the response time of its online communications with customers, and regularly tracked and reviewed the conversion of leads to increase their utilization rate and promote the completion of transactions; continuously expanded new media marketing channels, including cultivating Tiktok, Xiaohongshu (小紅書), short videos and live broadcasting platform accounts of nearly 80 dealership stores; strengthened resource synergies, and cooperated with internal and external units of the Group, including but not limited to carrying out activities such as seminars and birthday parties for car owners and festival-themed activities to provide customers with a variety of extended services with their vehicle purchases.

The Group's sales volume of new automobile for the six months ended 30 June 2023 were in aggregate 30,560 units, representing a period-on-period increase of approximately 17.1%, including 26,187 units of luxury and ultra-luxury branded automobiles, representing a period-on-period increase of approximately 22.1%.

2. After-sales services business

With its consistent customer-centric approach, the Group is committed to providing more comprehensive and considerate services to its customers.

In terms of customer maintenance, the Group placed emphasis on customer care and interaction, and the enhancement of its digital customer operation capabilities. Leveraging its self-developed information system which links to Cheweixing (車微星) and enterprise Wechat, the Group was able to establish close relationships with its customers and issued reminders to customers on a regular basis about maintenance and the use of customer rights to provide more conscientious and convenient after-sales services. At the same time, the Group offered customers online consultation, addressed customers' needs in a timely manner, and provided customers with the services they required. As a result, the Group's customer base saw a steady growth during the period.

The Group continued to optimise the online mall and the functions of Cheweixing to provide customers with a variety of online product choices. The Group supported the integration of the online and offline after-sales services to enhance its service efficiency and customer satisfaction. It also continued to promote the "dual-guarantee worry-free" (雙保無優) product to satisfy customers' demand for extended warranty and attract customers back to its stores. In addition, the Group regularly organised vehicle owners' activities, knowledge seminars and other activities to enhance customer interaction and loyalty, while enriching their after-sales service experience, so as to further improve customer satisfaction.

For the six months ended 30 June 2023, the Group provided after-sales services for 574,600 units of automobiles in aggregate. Revenue from the after-sales services of the Group amounted to approximately RMB1,426 million.

3. Pre-owned automobile business

According to the data issued by the China Automobile Dealers Association, the cumulative transaction volume of pre-owned automobiles from January to June 2023 amounted to 8,768,600 units, representing a period-on-period increase of 15.6% or 1,183,500 units, with a cumulative transaction amount of RMB551.726 billion. With the implementation of favourable national policies to further promote consumption and circulation of pre-owned automobiles, pre-owned automobile will become an important endogenous driving force in China's automobile market and usher in a window of opportunity for development.

The Group has always attached great importance to the healthy development of its pre-owned automobile business. During the period, the Group updated and iterated its standardised system for the management of pre-owned automobiles, and enhanced and improved its cooperation with several online pre-owned automobile auction platforms. Since the beginning of this year, the Group has been concentrating on the enhancement of its pre-owned automobile retail business by strengthening external procurement, establishing pre-owned automobile demo stores, and establishing a mechanism for sharing and competition among the Group's pre-owned automobile retail sources, so as to effectively improve the quality of the operation of the pre-owned automobile retail business, thereby further improving the profitability of the pre-owned automobile business.

In July 2023, the Group was granted the pre-owned automobile export qualification and has commenced its pre-owned automobile export business. To take advantage of the current development trend of the automobile export business in the PRC and the benefits of the national policies, the Group will promote the expansion of its pre-owned automobile export business and establish a comprehensive supply chain system for its pre-owned automobile export business.

4. Auto finance business

Benefiting from the Group's overall synergy and the interconnection of its businesses, the insurance agency business of the Group has achieved good results and performance in the first half of 2023. During the six months ended 30 June 2023, new insurance was made for 26,000 units, representing a period-on-period increase of 7%. In particular, new car insurance rate reached 94%, and renewal insurance was made for 93,000 units, representing a period-on-period increase of 13%. The Group achieved sales of dual insurance products of RMB76 million, and actively developed more innovative insurance services.

The Group continued to pursue a customer-oriented philosophy, with an aim to satisfying customers' diverse needs by introducing derivative insurance products, increasing customer retention rate and improving the overall profitability of its stores, with the satisfaction of customers' needs as the driving force for its long-term development.

DEVELOPMENT AND LAYOUT OF COMPANY NETWORK

Continuously optimising brand structure and store profitability and focusing on market opportunities brought by the new energy and new dealership model

As a leading dealership group of luxury brands in the PRC, the Group represents mass-market luxury and ultra-luxury automobile brands including Porsche, Mercedes-Benz, BMW, Audi, Jaguar Land Rover, Volvo and Hongqi. In addition, the Group also engages in the dealership of mid-to-high-end brands such as FAW-Volkswagen, Buick, Dongfeng-Nissan, FAW Toyota and Dongfeng-Honda.

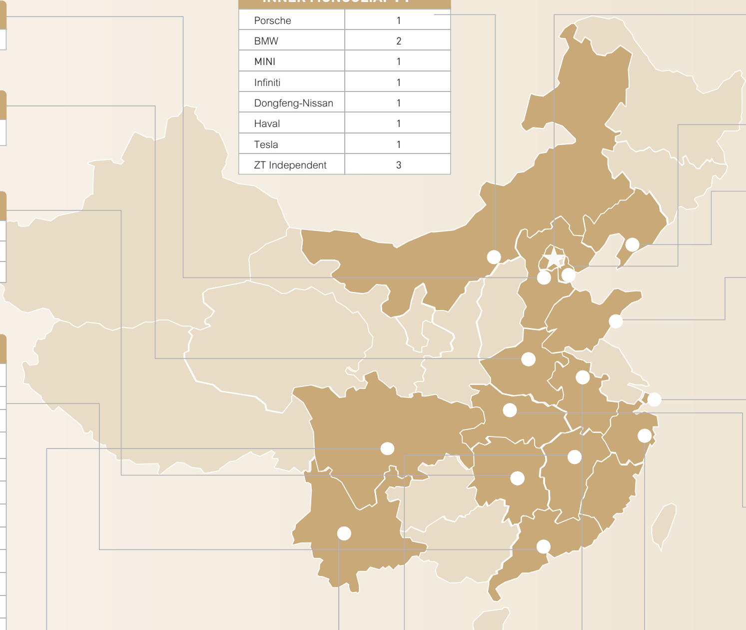
As of 30 June 2023, the Group had 109 dealership stores in 37 cities across 16 provinces and municipalities in China, and was authorised to develop 3 additional dealership stores, namely an Audi 4S store, a Mercedes-Benz repair centre, and a Great Wall-Tank-WEY joint brand 4S store. In the first half of 2023, the Group opened a Mercedes-Benz 4S store in Longhua District, Shenzhen and a GWM Haval 4S store in Hohhot, Inner Mongolia, respectively, to expand its network of traditional luxury brands while mindful of the rapid rise of independent brands and cultivate new growth points. Meanwhile, two newly authorised NIO repair centres of the Group also officially opened in the first half of the year. The Group continued expanding its business layout in the new energy field, especially in the repair field with relatively stable profits, and actively explored investment or cooperation opportunities in the new energy market.

The following table sets forth the details of the Group's dealership stores as of 30 June 2023:

	Dealership stores in operation	Dealership stores in development	Total
5S/4S stores for luxury and ultra-luxury brands	58	1	59
4S stores for mid-to-high-end and new energy brands	17	1	18
Urban showrooms for luxury brands	5	0	5
Authorized repair centres for luxury brands	4	1	5
Showrooms for mid-to-high-end and new energy brand	1	0	1
Mid-to-high-end and new energy brand service centres	5	0	5
Self-operated stores	19	0	19
Total	**109**	**3**	**112**

The Group has paid close attention and attached great importance to the changes in the automotive industry and brand landscape. The rapid rise and differentiation of domestic independent and new energy brands, coupled with the swift decline in sales volume and market share of traditional joint venture brands, has further increased the uncertainty in the profitability and business development of dealerships.

Leveraging the strong support of its state-owned shareholder and utilizing its own resources and advantages, the Group has promoted and launched its core and profitable brand projects as planned. It also actively cooperated with OEMs in various aspects such as upgrading brand image and shifting to new energy. Meanwhile, the Group focused on strengthening communication and maintenance with the OEMs of core brands. In the first half of this year, the Group was recognized by manufacturers and won important awards such as the 2022 BMW i Dealer Award (2022年度BMWi經銷商獎), BMW Best Corporate Social Responsibility Practice Award (BMW最佳企業社會責任實踐獎), 2022 Mercedes-Benz Craftsmanship Award (2022梅賽德斯奔馳匠心獎), and Jaguar Land Rover National Excellent Dealer (捷豹路虎全國卓越經銷商). At the same time, it continued to streamline and strategically reposition low-performing brands and stores, and promote brand conversion and property revitalization and leasing, in order to improve its overall profitability.



HEBEI: 1	
ZT Independent	1

HENAN: 1	
Audi	1

HUNAN: 6	
BMW	4
MINI	1
Jaguar, Land Rover	1

GUANGDONG: 43	
Porsche	3
BMW	10
Audi	6
Benz	5
Jaguar, Land Rover	5
Cadillac	1
Imported Volkswagen	1
FAW Toyota	1
FAW Volkswagen	3
Tesla (new energy)	1
HYCAN (new energy)	1
ZT Independent	6

SICHUAN: 2	
Porsche	1
BMW	1

INNER MONGOLIA: 11	
Porsche	1
BMW	2
MINI	1
Infiniti	1
Dongfeng-Nissan	1
Haval	1
Tesla	1
ZT Independent	3

JIANGXI: 7	
BMW	4
Audi	1
ZT Independent	2

YUNNAN: 1	
Benz	1

ANHUI: 1	
Benz	1

ZHEJIANG: 3	
Benz	2
ZT Independent	1

BEIJING: 5	
BMW	2
Jaguar, Land Rover	1
Volvo	1
ZT Independent	1

TIANJIN: 1	
ZT Independent	1

LIAONING: 1	
Porsche	1

SHANDONG: 2	
Audi	1
ZT Independent	1

SHANGHAI: 4	
BMW	1
Hongqi	1
Dongfeng-Nissan	1
Dongfeng Honda	1

HUBEI: 20	
BMW	4
MINI	2
Audi	1
Hongqi	1
Benz	2
Jaguar, Land Rover	1
Chevrolet	1
Dongfeng-Nissan	1
Buick	2
NIO maintenance centre	2
ZT Independent	3

(II) Supply chain business segment

In the first half of 2023, the Group recorded a revenue of RMB303 million from its supply chain business segment.

In terms of the vehicle logistics business, Shengze Jietong Supply Chain Co., Ltd. ("Shengze Jietong"), a member of the Group which is principally engaged in supply chain business, successfully obtained the terminal distribution business of Dongfeng-Nissan in Chongqing port with its efficient logistics network and resource advantages. In terms of the vehicle warehousing business, it successfully introduced the Xiaopeng Motors business in May. In terms of the spare parts business, Shengze Jietong won the bid for the BWI Group's national transportation and distribution project of automobile spare parts in June and has since put it into operation, and the spare parts warehousing center of FAW Volkswagen in Central China will also be put into operation within the year. Meanwhile, it has substantially completed the construction of the Hannan logistics base and cooperated with JD logistics to install sophisticated warehouse operation equipment. It is expected that, once operational, the Hannan logistics base will be a comprehensive logistics base that integrates spare parts logistics, vehicle logistics, vehicle warehousing and other businesses.

In view of its business development and cost management performance, Shengze Jietong was accredited the "TOP50 in terms of car transportation capacity in 2023" (2023年轎運自有運力TOP50) by the China Automotive Logistics Association of CFLP (CALA).

(III) Management improvement

In the first half of 2023, the Group has made the following optimization and improvement in corporate governance, organizational structure, internal supervision, risk prevention, human resources, information development and other aspects:

- In terms of corporate governance, the Company continued to establish and improve a standardized corporate governance structure and scientific rules of procedure. In the first half of 2023, the Company organized departments to formulate and amend 31 systems and repeal 5 systems, clarifying the responsibilities and permissions in decision-making, execution and supervision, and forming an effective division of responsibilities and check-and-balance mechanism. It continued to comprehensively revise the Company's regulations and systems, covering the optimization of the core control systems such as risk management, investment management, procurement and bidding, expense management, and internal supervision, and optimized the approval and permits for the automobile distribution business segment and the headquarters' function segment in accordance with the principles of appropriateness of authority and responsibility, hierarchical authorization, and simplicity and high efficiency.

- In terms of organizational structure, as a listed company, the Company actively practiced and paid attention to the investment philosophy and corporate evaluation standards of corporate environment, social responsibility and corporate governance performance, and has set up an environmental, social and governance committee under the Board to be responsible for ESG-related work. In accordance with the principles of effective management, flat streamlining and stable adaptation, the Company readjusted and optimized the role division of senior management to ensure clearer responsibilities of the management. The Company has reorganized and integrated the responsibilities of general departments, refined the responsibilities of each department of the headquarters one by one, clarified the job objectives and assessment indicators, unified the principle and direction, and ensured the implementation of the organizational strategy.

- In terms of internal audit and supervision, the Company emphasized the key points of auditing, focused on the implementation of strategic planning, the quality of business operation, and the efficiency of resource allocation, and strengthened audit work around key areas, important matters and major risks that affect the Company's business development. At the same time, adhering to the issue-oriented principle, the Company promoted the rectification of common issues and strengthened the acceptance of rectification, in order to promote the transformation of audit results into management results. In order to further enhance its internal control system, the internal control research, diagnosis and internal control system optimization projects have been implemented. The Company also established a comprehensive supervision system for business, finance, risk control and auditing to ensure the orderly advancement of the Company's system for punishing and preventing corruption.

- In terms of risk prevention, the Company dynamically analyzed and evaluated risks based on its development stage and business expansion, and adjusted its risk response strategies accordingly. The Company has formulated an operational risk management system, and strengthened the identification, prevention and control of risks. The Company has established and optimized its financing, guarantee and foreign exchange transaction management systems, and strictly controlled the execution risks of its financial and fund-raising activities. It established an emergency management and public opinion management team and developed emergency disposal and public opinion response mechanisms.

- In terms of human resources, the Company has optimized a scientific and reasonable remuneration system and established an employee career management system which is compatible with its development strategy. The Company has optimized its cadre selection mechanism and promoted internal competition and market-oriented selection for middle and senior-level posts in accordance with the principles of fairness, justness and openness. The Company has established channels for internal talents to exchange and learn, and constantly enhanced its talent discovery, growth, development and incentive mechanism. It has strengthened multi-dimensional training to improve the professional knowledge and skills of its management and business personnel, organised various activities to promote corporate culture, and promoted the milestones and deeds of the diligent individuals to help employees achieve values and goals.

- In terms of information development, the Company has actively accelerated the improvement of functional management. In the first half of 2023, focusing on the digital operation and management of the Company's business, the Company independently designed and developed a series of automotive informatization projects, including but not limited to the creation of client Wechat mini-programs, vehicle electronic tag inventory management and checking system, test drive vehicle and loaner vehicle management system, membership product distribution and use system, network and information security system optimization, etc. The continuous digital transformation enables the Company to timely and effectively adapt to changes in market conditions and consumer demand, which has played an important role in the Company's development of a business indicator monitoring system and performance benchmarking system and its consolidation of refinement management.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2023, the Group recorded a revenue of approximately RMB12,310 million, representing an increase of approximately 11.2% as compared to the revenue of approximately RMB11,069 million in the first half of 2022. The increase in revenue was mainly due to an increase in sales of new automobiles during the period.

Revenue of the Group was derived from the sales of new automobiles, after-sales services and other businesses. In the first half of 2023, revenue from the sales of new automobiles amounted to approximately RMB10,581 million, representing an increase of approximately 14.0% as compared to approximately RMB9,281 million in the first half of 2022, and accounted for approximately 86.0% of the total revenue in the first half of 2023 (corresponding period in 2022: 83.8%), among which, revenue from the sales of luxury and ultra-luxury branded automobiles accounted for 95.0% of the revenue from the sales of new automobiles (corresponding period in 2022: 93.5%).

In the first half of 2023, revenue from the after-sales services was approximately RMB1,426 million, representing a decline of approximately 2.9% as compared to approximately RMB1,468 million in the first half of 2022. In the first half of 2023, revenue from the after-sales services accounted for approximately 11.6% of the total revenue (corresponding period in 2022: 13.3%).

Cost of sales

For the six months ended 30 June 2023, the Group's cost of sales increased by approximately 15.4% to approximately RMB11,679 million as compared to approximately RMB10,120 million in the first half of 2022, which was due to an increase in sales of new automobiles and promotion of certain vehicle inventory which resulted in a corresponding increase in sales costs. In the first half of 2023, cost of sales for new automobiles of the Group increased by approximately 20.6% to approximately RMB10,558 million from approximately RMB8,755 million in the first half of 2022, which was due to an increase in sales of new automobiles and promotion of certain vehicle inventory which resulted in a corresponding increase in sales costs. Cost of after-sales services decreased by approximately 21.0% to approximately RMB851 million from approximately RMB1,077 million in the first half of 2022. The decrease was mainly attributable to the control of operating costs for consolidated and mid-end brand stores.

Gross profit and gross profit margin

For the six months ended 30 June 2023, the Group's gross profit decreased by approximately 33.6% to approximately RMB630 million from approximately RMB949 million in the first half of 2022, and the gross profit margin decreased by approximately 3.5 percentage points to approximately 5.1% from 8.6% in the first half of 2022. The decrease was mainly due to a decrease in the average selling price of new automobiles.

Selling and distribution expenses

For the six months ended 30 June 2023, the Group's selling and distribution expenses increased by approximately 4.4% to approximately RMB566 million from approximately RMB542 million in the first half of 2022, which was mainly due to an increase in marketing expense and labor costs.

Administrative expenses

For the six months ended 30 June 2023, the Group's administrative expenses amounted to approximately RMB535 million, representing an increase of approximately 7.0% from approximately RMB500 million in the first half of 2022, which was mainly due to the increase in depreciation and amortization brought by the opening of new stores.

Profit from operations

For the six months ended 30 June 2023, the Group's profit from operations amounted to approximately RMB153 million, as compared to the profit from operations of approximately RMB533 million for the same period in 2022. The decrease was mainly due to the decrease in gross profit margin from sales of new automobiles during the period.

Income tax

For the six months ended 30 June 2023, the Group's income tax expenses amounted to approximately RMB2 million, and the income tax expenses amounted to approximately RMB65 million in the first half of 2022.

Contingent liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities other than as disclosed in "Note 27 Contingent liabilities" to the unaudited interim financial statements.

(Loss)/profit for the period

For the six months ended 30 June 2023, the Group's loss for the period was approximately RMB386 million, as compared with a profit of approximately RMB6 million in the first half of 2022. The reversal was mainly due to the decrease in gross profit margin from sales of new automobiles during the period.

Current assets and current liabilities

As at 30 June 2023, the Group's current assets amounted to approximately RMB14,610 million, representing an increase of approximately RMB780 million as compared to the current assets of approximately RMB13,830 million as at 31 December 2022.

As at 30 June 2023, the Group's current liabilities amounted to approximately RMB20,339 million, representing an increase of approximately RMB1,428 million as compared to the current liabilities of approximately RMB18,911 million as at 31 December 2022. The increase was mainly due to an increase in business-related short-term bank borrowings.

Cash flow

As at 30 June 2023, the Group had cash and cash equivalents amounting to approximately RMB705 million, representing a decrease of approximately RMB29 million from approximately RMB734 million as at 31 December 2022. The Group's transactions and monetary assets were principally denominated in Renminbi. The Group's primary uses of funds 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 finance the Group's working capital and daily operating 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 2023, the Group had net cash outflow of approximately RMB446 million generated from its operating activities (for the six months ended 30 June 2022: net cash inflow of approximately RMB171 million), which was primarily due to the decrease in gross profit from sales of new automobiles.

Capital expenditure and investment

For the six months ended 30 June 2023, the Group's capital expenditure and investment were approximately RMB401 million (2022: RMB371 million), which was mainly due to the upgrade and renovation of certain dealership stores.

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. 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 inventories, 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 amounted to approximately RMB3,581 million as at 30 June 2023, representing a decrease of approximately RMB483 million when compared with approximately RMB4,064 million as at 31 December 2022. Such change was mainly due to the reduction in the closing inventory of new automobiles of the Group. The Group's average inventory turnover days in the first half of 2023 was 49.4 days, representing an increase of 8.6 days as compared to 40.8 days in the first half of 2022. The following table sets forth our average inventory turnover days (excluding the impact of properties under development for sale) for the period indicated:

	For the six months ended 30 June (day)	
	2023	2022
Average inventory turnover days (excluding the impact of properties under development for sale)	**49.4**	40.8

Foreign exchange risk

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. The Group used forward exchange instruments and option foreign exchange instruments to partially hedge its US-dollar future loans repayment.

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 and other financial institutions. As at 30 June 2023, the Group's cash and bank deposits were approximately RMB5,600 million (including: pledged bank deposits of approximately RMB4,885 million, time deposits of approximately RMB10 million and cash and cash equivalents of approximately RMB705 million), representing an increase of approximately RMB909 million, from approximately RMB4,691 million as at 31 December 2022. As at 30 June 2023, loans and borrowings, lease liabilities of the Group amounted to approximately RMB21,448 million (31 December 2022: loans and borrowings, lease liabilities of the Group amounted to approximately RMB20,018 million). As at 30 June 2023, the net gearing ratio of the Group was approximately 1,347.3% (31 December 2022: approximately 6,828.9%). Net gearing ratio as at 30 June 2023 was calculated as loans and borrowings and lease liabilities less cash and cash equivalents, time deposits and pledged bank deposits divided by total equity. The Group will actively improve its operating efficiency and consider various methods to improve its existing financial position and reduce the degree of leverage of the Group.

Pledged assets

The Group has pledged its assets as security for loans and borrowings and as working capital for daily operations. As at 30 June 2023, the pledged assets of the Group amounted to approximately RMB9,648 million (31 December 2022: approximately RMB8,003 million).

Investments held in foreign currency and hedging

For the six months ended 30 June 2023, the Group did not hold any investments denominated in foreign currencies.

Employees and remuneration policies

As at 30 June 2023, the Group had a total of 7,093 employees in China (as at 31 December 2022: 7,181 employees). The total staff costs of the Group incurred for the six months ended 30 June 2023 were approximately RMB441 million (for the six months ended 30 June 2022: approximately RMB459 million).

The Group attaches great importance to human resources and understands the importance of attracting and retaining high-quality employees to the long-term success of the Group. The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans.

PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 7 June 2023 (after trading hours), the Company entered into a placing agreement with Huatai Financial Holdings (Hong Kong) Limited (the "Placing Agent"), pursuant to which the Company agreed to place, through the Placing Agent, an aggregate of 122,560,000 placing shares to not less than six independent placees at a price of HK$0.48 per placing share.

The placing shares rank pari passu in all aspects with the existing shares upon issuance.

The placing price of HK$0.48 per placing share represented a discount of approximately 15.79% to the closing price of HK$0.570 per share as quoted on the Stock Exchange on 7 June 2023, being the date of the placing agreement.

The net placing price (after deducting the costs and expenses of the placing) is approximately HK$0.46 per placing share. Based on a nominal value of HK$0.10 per share, the aggregate nominal value of the placing shares is HK$12,256,000.

The Directors consider that the placing is an opportunity to tap the market for funds to retire some of the more expensive bank loans coming due.

Completion of the placing took place on 15 June 2023. A total of 122,560,000 placing shares have been successfully placed by the Placing Agent to no less than six placees at the placing price of HK$0.48 per placing share.

The net proceeds from the placing were approximately HK$56.34 million (after deducting related costs and expenses).

The table below sets out the planned application of the proceeds and actual usage up to 30 June 2023:

	% of use of proceeds	Proceeds from the placing (HK$ million)	Actual usage during the reporting period (HK$ million)	Unutilized net proceeds as of 30 June 2023 (HK$ million)
Repaying bank loans	100%	56.34	0	56.34

Note: As at the date of this report, the abovementioned net proceeds have been fully utilized as intended.

For further details of the placing, please refer to the announcements of the Company dated 8 June 2023 and 15 June 2023.

MATERIAL ACQUISITIONS AND DISPOSALS

The Board had, on 28 February 2023, approved a proposed plan to dispose of the Group's 100% equity interest in Shenzhenshi Huianqi Investment Advisory Co., Ltd.* (深圳市匯安啟投資諮詢有限公司), an indirect wholly owned subsidiary of the Company which holds the property interests (including land use rights and construction in progress, which is currently suspended) in a parcel of land located at the eastern side of Heping Road, Longhua Street, Longhua District in Shenzhen (the "Shenzhen Property"). The Shenzhen Property has a site area of approximately 31,260.44 square metres which will be developed into a new industries park with a plot ratio accountable gross floor area of approximately 161,700 square metres.

As at the date of this interim report, the Shenzhen Property was bare land for which earth-and-stone and foundation pit support works had commenced. The disposal was intended to be conducted by way of public tender at the Shenzhen United Property and Equity Exchange* (深圳聯合產權交易所股份有限公司) and the initial price was preliminarily set at approximately RMB800 million.

Using the preliminary initial price as the basis for calculation, the relevant percentage ratios (calculated according to the Listing Rules) in respect of the potential disposal are expected to be more than 25% but less than 75%. Accordingly, the potential disposal, if materialized, will constitute a major transaction of the Company subject to the reporting, announcement, circular, and shareholders'approval requirements under Chapter 14 of the Listing Rules. The potential disposal was approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 20 April 2023.

As at the end of the period set for the first public tender, no bid was received. After reviewing market conditions, the Company is considering measures for optimisation: (1) whether to undertake a subsequent public tender for the potential disposal, or (2) to explore cooperation opportunities with potential investor(s) or partner(s) in respect of the Shenzhen Property.

For further details, please refer to the announcements of the Company dated 28 February 2023 and 4 August 2023 and the circular of the Company dated 27 March 2023.

FUTURE OUTLOOK AND STRATEGIES

As an automobile dealership group dedicated to the distribution of luxury and ultra-luxury brands, the Company will maintain its focus on luxury automobile brands, increase overall cooperation with OEMs (including in respect of new energy projects), strengthen strategic partnerships with domestic mainstream luxury and ultra-luxury branded OEMs, and optimise brand structure and store profitability under its long-term network expansion strategy.

Spurred by the new energy vehicle purchase tax subsidy and consumption recovery policies, the Company will seize market opportunities, and continue to strengthen management and improve the quality of its operation by refining assessment methods and focusing on per capita efficiency. In addition, it will continue to make use of its existing store resources and channels to vigorously expand the export business of pre-owned automobiles by leveraging favourable policy, market and logistics conditions. At the same time, the Company will actively study the development trends and directions of the automobile dealership industry, pay attention to market opportunities arising from new energy and new dealership models, and seize opportunities to participate in the sales, maintenance and related businesses of new brands and independent domestic brands with development potential. The Company will analyze the characteristics of the automobile dealership industry, explore service and business growth points, and expand into the automotive industry chain and explore new business opportunities.

INTERIM DIVIDEND

The Board does not recommend an interim dividend for the six months ended 30 June 2023.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2023, none of the Directors and chief executive of the Company and their respective associates had or was deemed to have any interests and/or short positions in the shares and underlying shares and debentures of the Company or any of 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 Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2023, the interests and/or short positions of the substantial shareholders (other than the Directors or chief executive of the Company) 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:

Name of Shareholders	Capacity/nature of interest	Number of Shares held	Approximate percentage of shareholding
Xiamen ITG Holding Group Co., Ltd. 廈門國貿控股集團有限公司	Beneficial owner	820,618,184 (Long position)	28.62%
Cheung Mui (張梅)	Beneficial owner	286,894,500 (Long position)	10.01%
Xingtai Capital Management Limited	Investment manager	179,478,000 (Long position)	6.26%

Note:

1. As at 30 June 2023, the total number of Shares in issue was 2,867,102,420.

Save as disclosed above, as at 30 June 2023, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE AWARD SCHEME

The Company adopted a restricted share award scheme ("Share Award Scheme") on 12 June 2020 ("Adoption Date"), which enables the Company to, among other things, provide selected participants with an opportunity to acquire a proprietary interest in the Company; to encourage and retain participants to work with the Group; to provide additional incentive for selected participants to achieve performance goals; and to attract personnel to join the Group, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the selected participants directly to the Shareholders through ownership of Shares. The Share Award Scheme shall initially be valid and effective for a period of ten years from the Adoption Date subject to early termination as stipulated under the rules related to the Share Award Scheme ("Scheme Rules"). As at the date of this report, the remaining term of the Share Award Scheme is approximately 6.5 years.

Any employees or directors of the Company or any of its subsidiaries whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group and who are nominated and selected by the Board and approved by the remuneration committee of the Board ("Remuneration Committee") (as to identities of the selected participants and determination of the number of Shares subject to the grant ("Grant Shares")) in accordance with the terms of the Scheme Rules may be qualified as a selected participants under the Share Award Scheme.

Subject to the Scheme Rules, the Grant Shares shall be new Shares to be issued and allotted by the Company for nil consideration. The Grant Shares are subject to acceptance of the selected participants. For the purpose of implementing and administering the Share Award Scheme, the Company has appointed BOCI-Prudential Trustee Limited as the Trustee ("Trustee"). Award shares under the Share Award Scheme shall be issued and allotted to the Trustee who shall hold such Shares upon trust for the benefit of the selected participants and shall vest and transfer to the relevant selected participants after fulfilment of all vesting conditions as set out in the Scheme Rules and subject to the vesting schedule ranging from the first to the fourth anniversary of the date on which the Grant Shares are granted ("Grant Date"), as determined and applicable to relevant selected participants according to their respective tenure of office with and/or level of position in the Group.

No Shares will be allotted or issued under the Share Award Scheme if the allotment or issue of shares would result in the total number of Shares administered under the Share Award Scheme and all relevant award shares under the Share Award Scheme (excluding Shares in respect of which entitlements have been discharged or have lapsed under the Share Award Scheme) exceeding in aggregate 5% of the Shares of the Company in issue as at Adoption Date (i.e. 122,611,021 Shares). The maximum number of award shares which may be granted to an individual selected participant shall not exceed 1% of the issued shares of the Company as at the Adoption Date (i.e. 24,522,204 Shares). As at the date of this report, the total number of Shares available for issue in respect of awards that may be granted under the Share Award Scheme is 90,391,021 Shares, representing approximately 3.15% of the Shares in issue as at such date.

Where any grant is proposed to be made to any selected participant who is a connected person (including a Director), such grant must first be approved by all the independent non-executive Directors and in each case excluding any independent non-executive Director who is the proposed selected participant and shall be separately approved by the Shareholders in general meeting with such connected person and his associates abstaining from voting and shall comply with all other requirements of Chapter 14A of the Listing Rules applicable to such grant.

During the reporting period, no grant was made under the Share Award Scheme. From the Adoption Date to 30 June 2023, the Board has granted a total of 47,100,000 Grant Shares under the Share Award Scheme, accounted for approximately 1.92% of the issued Shares as at the Adoption Date. Out of the 47,100,000 Grant Shares, (i) 35,700,000 Grant Shares were granted to 37 non-connected selected participants, all being independent employees of the Group who are not connected persons of the Company; and (ii) 11,400,000 Grant Shares were granted to 3 former executive Directors of the Company, namely, Mr. Wang Kunpeng, Mr. Li Zhubo and Mr. Wan To.

The said 47,100,000 Grant Shares were initially and directly allotted and issued to the Trustee at market price based on the average closing price of the Shares for the five consecutive trading days immediately preceding the Adoption Date as quoted on the Stock Exchange of approximately HK$1.178 per Share. The market value and nominal value of such 47,100,000 Grant Shares were HK$55,483,800 and HK$4,710,000, respectively.

Details of the Grant Shares granted under the Share Award Scheme and their movements for the six months ended 30 June 2023 are as follows:

Category of participants	Date of grant	Vesting date/period[1]	Unvested as at 1 January 2023	Granted during the period	Canceled during the period	Lapsed/ forfeited during the period	Vested during the period	Unvested as at 30 June 2023
Employee Participants								
In aggregate	12 June 2020	12 June 2021 to 12 June 2024[1(i)]	3,080,000	–	–	–	–	3,080,000
	12 June 2020	12 June 2021 to 12 June 2023[1(ii)]	3,880,000	–	–	240,000	–	3,640,000

Notes:

1 Subject to the satisfaction of the vesting conditions (including that the employees remain in service and meet performance requirements), the Grant Shares held by the Trustee on behalf of the selected participants shall be vested and transferred to the selected participants at no cost in accordance with the vesting schedule below:

(i) Applicable to selected participants whose term of service with any member of the Group is less than 5 years as at the grant date

Vesting Date	Amount of Grant Shares to vest
Second anniversary of grant date	One-third (round down to the nearest board lot of Shares)
Third anniversary of grant date	One-third (round down to the nearest board lot of Shares)
Fourth anniversary of grant date	The remaining Grant Shares

(ii) Applicable to selected participants whose term of service with any member of the Group is 5 years or more as at the grant date

Vesting Date	Amount of Grant Shares to vest
First anniversary of grant date	One-third (round down to the nearest board lot of Shares)
Second anniversary of grant date	One-third (round down to the nearest board lot of Shares)
Third anniversary of grant date	The remaining Grant Shares

(iii) Applicable to selected participants whose term of service with any member of the Group is 10 years or more as at the grant date and/or whose office or role are vice-president level or above

Vesting Date	Amount of Grant Shares to vest
First anniversary of grant date	100%

The number of share awards available for grant under the scheme mandate was 90,151,021 as at 1 January 2023 and 90,391,021 as at 30 June 2023.

For details of the summary of the major terms of the Share Award Scheme, and the grant of the Grant Shares please refer to the announcements of the Company dated 12 June 2020 and 18 June 2020 and the circular of the Company dated 31 August 2020. Further details of the Share Award Scheme are set out in note 22 to the unaudited interim financial report.

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 2023.

EVENTS AFTER REPORTING PERIOD

On 31 July 2023, Mr. Zeng Tingyi ceased to be an executive Director and an authorised representative of the Company, while Mr. Huang Junfeng was appointed as an executive Director of the Company, and Ms. Fung Wai Sum, the company secretary, was appointed as an authorised representative of the Company.

CORPORATE GOVERNANCE

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Group also acknowledges the vital importance of good corporate governance to the success and sustainability of the Group.

The Company has adopted the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code"). So far as the Board is aware, during the six months ended 30 June 2023, the Company has complied with the code provisions set out in the CG Code.

The Company will periodically review and enhance its corporate governance practices to ensure that it will continue to comply with the requirements of the CG Code.

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, each of the then existing Directors confirmed that they had complied with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2023.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the "Audit Committee") comprises three members, all of whom are independent non-executive Directors of the Company, namely Dr. Wong Tin Yau, Kelvin (the chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for six months ended 30 June 2023. KPMG, the Group's external auditor, has carried out a review of the unaudited interim financial statements for the six months ended 30 June 2023 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
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

Wang Mingcheng
Chairman

29 August 2023

INDEPENDENT REVIEW REPORT

KPMG

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 19 to 51 which comprises the consolidated statement of financial position of China ZhengTong Auto Services Holdings Limited (the "Company") as of 30 June 2023, 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 then ended, and notes to the interim financial report. 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 2023 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

29 August 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2023 — unaudited

(Expressed in RMB'000)

		Six months ended 30 June	
	Note	**2023**	2022
Revenue	4	**12,309,565**	11,068,764
Cost of sales		**(11,679,149)**	(10,119,500)
Gross profit		**630,416**	949,264
Other income	5	**623,786**	393,264
Selling and distribution expenses		**(565,904)**	(542,098)
Administrative expenses		**(535,363)**	(500,141)
Reversal of impairment losses on intangible assets		**—**	232,426
Profit from operations		**152,935**	532,715
Finance costs	6(a)	**(536,380)**	(482,527)
Share of (loss)/profit of associate(s)		**(124)**	20,219
(Loss)/profit before taxation	6	**(383,569)**	70,407
Income tax	7	**(2,495)**	(64,732)
(Loss)/profit for the period		**(386,064)**	5,675
(Loss)/profit for the period attributable to:			
Equity shareholders of the Company		**(393,537)**	8,150
Non-controlling interests		**7,473**	(2,475)
(Loss)/profit for the period		**(386,064)**	5,675
Basic and diluted (loss)/earnings per share (RMB cents)	8	**(14.4)**	0.3

The notes on pages 25 to 51 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2023 — unaudited

(Expressed in RMB'000)

	Six months ended 30 June	
	2023	2022
(Loss)/profit for the period	**(386,064)**	5,675
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 of Mainland China	**(7,825)**	(10,245)
Other comprehensive income for the period	**(7,825)**	(10,245)
Total comprehensive income for the period	**(393,889)**	(4,570)
Attributable to:		
Equity shareholders of the Company	**(401,362)**	(2,095)
Non-controlling interests	**7,473**	(2,475)
Total comprehensive income for the period	**(393,889)**	(4,570)

The notes on pages 25 to 51 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2023 — unaudited

(Expressed in RMB'000)

	Note	At 30 June 2023	At 31 December 2022
Non-current assets			
Property, plant and equipment	10	5,779,444	5,766,306
Investment properties		385,805	303,593
Right-of-use assets	11	2,504,024	2,606,585
Intangible assets	12	2,624,077	2,705,072
Goodwill		566,736	566,736
Interest in an associate		15,217	15,341
Deferred tax assets		684,008	673,051
Long-term receivables		356,056	321,037
Other financial assets	13	944,947	944,947
		13,860,314	13,902,668
Current assets			
Inventories	14	3,580,553	4,064,270
Trade and bills receivables	15	900,989	907,442
Prepayments, deposits and other receivables	16	4,265,095	4,063,517
Other financial assets	13	263,048	103,561
Pledged bank deposits	17	4,884,674	3,957,215
Time deposits		10,398	—
Cash and cash equivalents	18	704,939	734,086
		14,609,696	13,830,091
Current liabilities			
Loans and borrowings	19	15,174,349	12,234,030
Lease liabilities		478,927	363,493
Trade and other payables	20	4,300,082	5,827,775
Income tax payables		379,669	394,662
Other financial liabilities	13	5,977	91,516
		20,339,004	18,911,476
Net current liabilities		(5,729,308)	(5,081,385)
Total assets less current liabilities		8,131,006	8,821,283
Non-current liabilities			
Loans and borrowings	19	4,922,331	6,439,857
Lease liabilities		872,042	981,073
Deferred tax liabilities		991,995	989,261
Trade and other payables	20	168,364	186,648
		6,954,732	8,596,839
NET ASSETS		1,176,274	224,444
CAPITAL AND RESERVES	23		
Share capital		246,394	235,203
Perpetual bonds	24	899,951	—
Reserves		(402,437)	(41,814)
Total equity attributable to equity shareholders of the Company		743,908	193,389
Non-controlling interests	24	432,366	31,055
TOTAL EQUITY		1,176,274	224,444

Approved and authorised for issue by the board of directors on 29 August 2023.

Wang Mingcheng
Chairman

Li Zhihuang
Director

The notes on pages 25 to 51 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2023 — unaudited

(Expressed in RMB'000)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Capital reserve	PRC statutory reserve	Exchange reserve	Discretionary surplus reserve	(Accumulated losses)/ retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2022	235,203	6,347,149	301,202	757,984	3,361	4,459	(7,140,928)	508,430	32,191	540,621
Changes in equity for the six months ended 30 June 2022:										
Profit/(loss) for the period	–	–	–	–	–	–	8,150	8,150	(2,475)	5,675
Other comprehensive income	–	–	–	–	(10,245)	–	–	(10,245)	–	(10,245)
Total comprehensive income for the period	–	–	–	–	(10,245)	–	8,150	(2,095)	(2,475)	(4,570)
Equity settled share-based transactions (note 22(b))	–	–	1,324	–	–	–	–	1,324	–	1,324
Balance at 30 June 2022 and 1 July 2022	235,203	6,347,149	302,526	757,984	(6,884)	4,459	(7,132,778)	507,659	29,716	537,375
Changes in equity for the six months ended 31 December 2022:										
(Loss)/profit for the period	–	–	–	–	–	–	(304,435)	(304,435)	1,339	(303,096)
Other comprehensive income	–	–	–	–	(10,378)	–	–	(10,378)	–	(10,378)
Total comprehensive income for the period	–	–	–	–	(10,378)	–	(304,435)	(314,813)	1,339	(313,474)
Equity settled share-based transactions	–	6,922	(6,379)	–	–	–	–	543	–	543
Appropriation to reserves	–	–	–	44,840	–	–	(44,840)	–	–	–
Balance at 31 December 2022	235,203	6,354,071	296,147	802,824	(17,262)	4,459	(7,482,053)	193,389	31,055	224,444

The notes on pages 25 to 51 form part of this interim financial report.

for the six months ended 30 June 2023 — unaudited (continued)

(Expressed in RMB'000)

	Attributable to equity shareholders of the Company									Attributable to non-controlling interests			
	Share capital	Share premium	Capital reserve	PRC statutory reserve	Exchange reserve	Discretionary surplus reserve	Accumulated losses	Perpetual bonds (note 24)	Sub-total	Perpetual bonds (note 24)	Share of net assets of subsidiaries	Sub-total	Total equity
Balance at 1 January 2023	235,203	6,354,071	296,147	802,824	(17,262)	4,459	(7,482,053)	—	193,389	—	31,055	31,055	224,444
Changes in equity for the six months ended 30 June 2023:													
(Loss)/profit for the period	—	—	—	—	—	—	(393,537)	—	(393,537)	7,870	(397)	7,473	(386,064)
Other comprehensive income	—	—	—	—	(7,825)	—	—	—	(7,825)	—	—	—	(7,825)
Total comprehensive income for the period	—	—	—	—	(7,825)	—	(393,537)	—	(401,362)	7,870	(397)	7,473	(393,889)
Issue of ordinary shares by placement (note 23(b)(i))	11,191	39,875	—	—	—	—	—	—	51,066	—	—	—	51,066
Capital injection by non-controlling interests	—	—	—	—	—	—	—	—	—	—	980	980	980
Issue of perpetual bonds (note 24)	—	—	—	—	—	—	—	899,951	899,951	400,000	—	400,000	1,299,951
Distribution to holders of perpetual bonds (note 24)	—	—	—	—	—	—	—	—	—	(7,142)	—	(7,142)	(7,142)
Equity settled share-based transactions (note 22(b))	—	—	864	—	—	—	—	—	864	—	—	—	864
Balance at 30 June 2023	246,394	6,393,946	297,011	802,824	(25,087)	4,459	(7,875,590)	899,951	743,908	400,728	31,638	432,366	1,176,274

The notes on pages 25 to 51 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2023 — unaudited

(Expressed in RMB'000)

	Note	Six months ended 30 June 2023	2022
Operating activities			
Cash (used in)/generated from operations		(420,116)	200,617
Tax paid		(25,711)	(29,323)
Net cash (used in)/generated from operating activities		(445,827)	171,294
Investing activities			
Payment for the purchase of property, plant and equipment		(499,002)	(354,581)
Proceeds from disposal of property, plant and equipment		235,786	130,457
Payment for purchase of financial assets		(60,312)	—
Proceeds from redemption of financial assets		850	5,330
Payment for purchase of intangible assets		(494)	(1,418)
Net cash used in acquisition of business		—	(35,500)
(Increase)/decrease in time deposits		(10,398)	413,841
Interest received		33,338	15,516
Net cash (used in)/generated from investing activities		(300,232)	173,645
Financing activities			
Proceeds from loans and borrowings		18,858,995	11,670,452
Repayment of loans and borrowings		(16,655,409)	(9,760,799)
Proceeds from issue of ordinary shares by placement		51,066	—
Proceeds from issue of perpetual bonds	24	400,000	—
Capital injection by non-controlling interests		980	—
Capital element of lease rentals paid		(151,593)	(144,528)
Interest element of lease rentals paid		(39,765)	(55,022)
Interest paid		(586,397)	(443,620)
Distribution to the holders of perpetual bonds	24	(7,142)	—
Increase of pledged bank deposits for bank loans and standby letters of credit		(1,026,054)	(818,757)
Proceeds in relation to settlement of derivative financial instruments		75,970	—
Payment in relation to settlement of derivative financial instruments		(205,550)	—
Net cash generated from financing activities		715,101	447,726
Net (decrease)/increase in cash and cash equivalents		(30,958)	792,665
Cash and cash equivalents at 1 January		734,086	208,771
Effect of foreign exchange rate changes		1,811	3,253
Cash and cash equivalents at 30 June	18	704,939	1,004,689

The notes on pages 25 to 51 form part of this interim financial report.

1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law 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, automotive supply chain business and comprehensive properties 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 29 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for application of certain accounting policy which became relevant to the Group and accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of these newly applied and 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 2022 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 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 18.

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2022 are available in the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2023.

2 BASIS OF PREPARATION (Continued)

The Group incurred a net loss of RMB386 million for the six months ended 30 June 2023 and had net current liabilities of RMB5,729 million as at 30 June 2023. The Group's liabilities included a sum of short-term and long-term loans and borrowings due to Xiamen ITG Holding Group Co., Ltd. ("ITG Holding") and its subsidiaries of RMB1,601 million and RMB2,496 million, respectively. Notwithstanding these conditions, the Company's condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared on a going concern basis and the directors of the Company consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern. This is because, based on the cash flow projections for at least the next twelve months, the directors of the Company concluded that the Group will have adequate funds having considered the current available banking facilities as well as the financial support from ITG Holding, which has informed the Group that, on the basis that in compliant with regulatory regime applicable to state owned enterprises and after obtaining internal resolutions and approvals, it will provide such financial support to the Group as is necessary to enable the Group to continue operation as a going concern for at least the next twelve months.

3 NEWLY APPLIED AND CHANGES IN ACCOUNTING POLICIES

(a) Accounting policy newly applied by the Group

The Group has applied the following accounting policy which became relevant to the Group in the current interim period.

Perpetual bonds

Perpetual bonds do not have a maturity date and coupon payment is optional at the discretion of the Group. As the Group does not have a contractual obligation to repay the principal nor make any distributions, perpetual bonds are classified as equity.

Any distributions made to perpetual bond holders are treated as dividends and directly debited from equity. Incremental costs directly attributable to the issue of the perpetual bonds are deducted against the proceeds from the issue.

(b) New and amended HKFRSs

The Group has applied the following new and amended HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

3 NEWLY APPLIED AND CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New and amended HKFRSs (Continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Except the amendment to HKAS 12, none of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. Impacts of the adoption of the amended HKFRSs are discussed below:

HKFRS 17, *Insurance contracts*

HKFRS 17, which replaces HKFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the Group does not have contracts within the scope of HKFRS 17.

Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in the annual financial statements, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

4 REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, provision of after-sales services, provision of logistics services and sales of lubricant oil. Revenue represents the sales of goods and services income rendered to customers.

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of passenger motor vehicles	**10,580,807**	9,281,151
Provision of after-sales services	**1,425,687**	1,467,521
Provision of logistics services	**189,234**	220,270
Sales of lubricant oil	**113,812**	99,156
	12,309,540	11,068,098
Revenue from other sources		
Others	**25**	666
	12,309,565	11,068,764

Revenue from logistics services is recognised over-time upon fulfilment of services obligation, whereas revenue from sales of passenger motor vehicles, after-sales services and sales of lubricant oil are recognised at a point in time.

5 OTHER INCOME

		Six months ended 30 June	
	Note	**2023**	2022
		RMB'000	RMB'000
Service income		**437,841**	221,635
Interest income from bank deposits		**33,338**	15,516
Net gain on disposal of property, plant and equipment		**21,792**	93,161
Net realised/unrealised gain on financial instruments		**76,753**	8,491
Government grants	(i)	**5,446**	8,431
Others		**48,616**	46,030
		623,786	393,264

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

6 (LOSS)/PROFIT BEFORE TAXATION

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

	Note	Six months ended 30 June 2023 RMB'000	2022 RMB'000
(a) Finance costs:			
Interest on loans and borrowings and bonds payable		**517,288**	446,818
Interest on lease liabilities		**39,765**	55,022
Finance cost for consideration of business combination	(i)	**1,654**	5,466
Other finance costs	(ii)	**24,451**	12,615
Less: interest capitalised		**(46,778)**	(37,394)
		536,380	482,527
(b) Staff costs:			
Salaries, wages and other benefits		**414,472**	428,499
Contributions to defined contribution retirement plans	(iii)	**25,709**	29,298
Equity settled share-based payment expenses (note 22(b))		**864**	1,324
		441,045	459,121

(i) It represents the unwinding of interest element of business combination consideration.

(ii) It mainly represents the interest expenses arising from discounting of bills payables.

(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 remits all pension fund contributions to the respective tax bureau, which are responsible for the payment and liabilities relating to the pension funds.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Company's and its subsidiaries' contributions made to the above defined contribution schemes are non-refundable and cannot be used to reduce the future or existing level of contribution of the Company and its subsidiaries should any forfeiture be resulted from the schemes.

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

6 (LOSS)/PROFIT BEFORE TAXATION (Continued)

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
(c) Other items:		
Cost of inventories (note 14(b))	**11,419,654**	9,824,236
Depreciation		
— Owned property, plant and equipment	**149,589**	197,696
— Right-of-use assets	**177,360**	156,556
— Investment properties	**7,312**	635
Amortisation of intangible assets	**81,489**	78,730
Operating lease charges	**3,604**	2,851
Reversal of impairment losses on		
— Intangible assets	**—**	(232,426)
— Property, plant and equipment	**—**	(21,239)
Net foreign exchange loss	**119,158**	160,847
	11,958,166	10,167,886

7 INCOME TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Current tax:		
Provision for PRC income tax for the period	**10,718**	47,964
Deferred tax:		
(Origination)/reversal of temporary differences	**(8,223)**	16,768
	2,495	64,732

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision for Hong Kong Profits Tax was made for the Group's subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the period. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25%.

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

8 (LOSS)/EARNINGS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the six months ended 30 June 2023 was based on the loss attributable to equity shareholders of the Company of RMB393,537,000 (six months ended 30 June 2022: profit attributable to equity shareholders of the Company of RMB8,150,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2023 of 2,733,099,326 shares (six months ended 30 June 2022: 2,716,922,420 shares).

(b) Diluted loss per share

The calculation of diluted loss per share for the six months ended 30 June 2023 was based on the loss attributable to equity shareholders of the Company of RMB393,537,000 (six months ended 30 June 2022: profit attributable to equity shareholders of the Company of RMB8,150,000) and the weighted average number of ordinary shares of 2,733,099,326 (six months ended 30 June 2022: 2,724,245,883 shares).

For the six months ended 30 June 2023, the potential ordinary shares in respect of the effect of Share Award Scheme was anti-dilutive, as they would lead to a decline in the loss per share.

For the six months ended 30 June 2022, as the dilutive effect on earnings per share resulting from the Company's Share Award Scheme (note 22) was negligible, therefore diluted earnings per share were same as basic earnings per share.

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, and after-sales 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 Comprehensive properties business

Comprehensive properties business mainly includes development and sales of properties in the PRC.

(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.

9 SEGMENT REPORTING (Continued)

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

- 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 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		Comprehensive properties business		Total	
For the six months ended 30 June	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Revenue from external customers	12,006,519	10,749,338	303,046	319,426	—	—	12,309,565	11,068,764
Inter-segment revenue	—	—	—	—	—	—	—	—
Reportable segment revenue	12,006,519	10,749,338	303,046	319,426	—	—	12,309,565	11,068,764
Reportable segment (loss)/profit	(368,474)	(27,329)	5,812	7,786	—	—	(362,662)	(19,543)
Reversal of impairment losses of intangible assets	—	232,426	—	—	—	—	—	232,426
Depreciation and amortisation for the period	398,047	418,644	17,703	14,973	—	—	415,750	433,617
Reportable segment assets as at 30 June 2023/ 31 December 2022	15,405,071	15,497,623	713,206	592,869	719,130	682,187	16,837,407	16,772,679
Reportable segment liabilities as at 30 June 2023/ 31 December 2022	(19,553,496)	(20,027,854)	(339,289)	(221,904)	(719,130)	(682,187)	(20,611,915)	(20,931,945)
Investment in an associate as at 30 June 2023/ 31 December 2022	15,217	15,341	—	—	—	—	15,217	15,341

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Reportable segment loss	(362,662)	(19,543)
Unallocated head office expense	(108,313)	(53,213)
Other income	623,786	393,264
Finance costs	(536,380)	(482,527)
Reversal of impairment losses of intangible assets	—	232,426
Consolidated (loss)/profit before taxation	(383,569)	70,407

9 SEGMENT REPORTING (Continued)

(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 2023 RMB'000	At 31 December 2022 RMB'000
Assets:		
Reportable segment assets	16,837,407	16,772,679
Intangible assets	2,624,077	2,705,072
Goodwill	566,736	566,736
Deferred tax assets	684,008	673,051
Unallocated head office assets	7,757,782	7,015,221
Consolidated total assets	28,470,010	27,732,759
Liabilities:		
Reportable segment liabilities	(20,611,915)	(20,931,945)
Income tax payables	(379,669)	(394,662)
Deferred tax liabilities	(991,995)	(989,261)
Unallocated head office liabilities	(5,310,157)	(5,192,447)
Consolidated total liabilities	(27,293,736)	(27,508,315)

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired property, plant and equipment with original costs of RMB400,849,000 in aggregate (six months ended 30 June 2022: RMB371,305,000). Items of property, plant and equipment with a net book value of RMB142,709,000 were disposed of during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB108,581,000), resulting in net gain on disposal of RMB21,792,000 (six months ended 30 June 2022: RMB93,161,000).

11 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2023, the Group entered into a number of lease agreements for use of buildings, and therefore recognised the additions to right-of-use assets of RMB145,172,000 (six months ended 30 June 2022: RMB202,794,000). The Group also early terminated several lease contracts and therefore recognised the disposals of right-of-use assets with a net book value of RMB57,708,000 (six months ended 30 June 2022: RMB33,336,000).

12 INTANGIBLE ASSETS

	Car dealerships & Dealership operation rights RMB'000	Favourable lease contracts RMB'000	Trademark RMB'000	Software and others RMB'000	Total RMB'000
Cost:					
At 1 January 2022	4,848,553	36,904	362,732	26,647	5,274,836
Additions	—	—	—	1,911	1,911
At 31 December 2022, and 1 January 2023	4,848,553	36,904	362,732	28,558	5,276,747
Additions	—	—	—	494	494
Disposals	—	—	—	(896)	(896)
At 30 June 2023	4,848,553	36,904	362,732	28,156	5,276,345
Accumulated amortisation:					
At 1 January 2022	1,383,979	36,887	—	11,252	1,432,118
Additions	154,305	11	—	6,683	160,999
At 31 December 2022, and 1 January 2023	1,538,284	36,898	—	17,935	1,593,117
Additions	79,122	6	—	2,361	81,489
Written back on disposals	—	—	—	(896)	(896)
At 30 June 2023	1,617,406	36,904	—	19,400	1,673,710
Accumulated impairment losses					
At 1 January 2022	1,065,357	—	145,627	—	1,210,984
Reversal of impairment losses	(232,426)	—	—	—	(232,426)
At 31 December 2022, 1 January 2023 and 30 June 2023	832,931	—	145,627	—	978,558
Net book Value:					
At 30 June 2023	2,398,216	—	217,105	8,756	2,624,077
At 31 December 2022	2,477,338	6	217,105	10,623	2,705,072

The car dealerships arise from prior business combinations and relate to relationships with automakers, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

The dealership operation rights arise from a prior business combination through an agreement on strategic operation management cooperation scheme, with an estimated useful life of 10 years. The fair value of the dealership operation rights as at the acquisition date was determined by using the multiple excess earning method.

The amortisation charge for the period ended 30 June 2023 is included in administrative expenses in the consolidated statement of profit or loss.

Having considered the impacts of macroeconomic environment changes, the intense competition in automobile dealership industry and the recent development in customer demand observed in automobile sector, the management of the Group performed an impairment assessment, assisted by an external valuer, to determine the recoverable amount of the cash generating units (CGUs) containing intangible assets — car dealerships and/or goodwill as at 30 June 2023. No impairment loss of intangible assets — car dealerships or goodwill was recognised.

The recoverable amounts of CGUs have been determined based on the value-in-use calculations using cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by using an estimated growth rate of 3% (2022: 3%) which is consistent with the forecasts included in industry reports.

13 OTHER FINANCIAL ASSETS/(LIABILITIES)

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Other financial assets carried at fair value through profit or loss ("FVPL")			
Current			
Wealth management products	(i)	133,105	89,969
Forward contracts	(ii)	32,375	13,592
Option contracts	(iii)	97,568	—
		263,048	103,561
Non-current			
Equity investment in Dongfeng Logistics Group Co., Ltd. ("Dongfeng Logistics")	(iv)	944,947	944,947
		1,207,995	1,048,508
Other financial liabilities carried at FVPL			
Forward contracts	(ii)	—	(91,516)
Option contracts	(iii)	(5,977)	—
		(5,977)	(91,516)

(i) Wealth management products included investment in wealth management products purchased from Western Trust Co., Ltd ("Western Trust") and investments with banks in the PRC.

The underlying assets of wealth management products purchased from Western Trust are a wide range of government and corporate bonds, bank deposits as well as money market funds, etc. During the six months ended 30 June 2023, the Group has redeemed part of these wealth management products with proceeds of RMB850,000 (six months ended 30 June 2022: RMB5,330,000). An unrealised loss for the investment of RMB16,522,000 was recognised as a loss in other income for the six months ended 30 June 2023 (six months ended 30 June 2022: an unrealised gain of RMB9,793,000).

The remaining wealth management products represented the investments with banks. These investments with no guarantee of principal and interest were classified as FVPL. During the six months ended 30 June 2023, the net unrealized gain for these investments of RMB196,000 was recognized as a gain in other income in the consolidated statement of profit or loss (six months ended 30 June 2022: nil).

(ii) Forward contracts are used to mitigate the effect of the Group's foreign currency exposure arising from the loans and borrowings. A financial asset or a financial liability is recognised for each unsettled forward contract as at 30 June 2023 and cannot be offset in the financial position, as the Group do not have a legally enforceable right to net off the amounts among different forward contracts. The fair value of the forward contracts was determined with a method shown in note 25.

During the six months ended 30 June 2023, net realised/unrealised loss of RMB56,685,000 from the forward contracts (six months ended 30 June 2022: loss of RMB11,148,000) was recognised as a loss in other income in the consolidated statement of profit or loss.

13 OTHER FINANCIAL ASSETS/(LIABILITIES) (Continued)

(iii) The Group entered into several USD/RMB foreign currency option contracts with PRC banks in order to manage the Group's foreign currency risk. The Group is required to transact with banks for designated notional amount on each of the valuation dates specified within the respective contracts ("Valuation Date").

At the Valuation Date, the reference rate, which represents the spot rate as specified within the respective contracts, shall be compared against the strike rates (upper and lower)/barrier rate as specified within the respective contracts, and the Group may receive from/pay to the banks an amount as specified in the contracts if certain conditions specified within the respective contracts are met. The fair value of the option contracts was determined with a method as disclosed in note 25.

During the six months ended 30 June 2023, net realised/unrealised gain of RMB149,764,000 (six months ended 30 June 2022: nil) from the option contracts was recognised in other income in the consolidated statement of profit or loss.

(iv) Equity investment in Dongfeng Logistics

Dongfeng Logistics is an unlisted entity incorporated in the PRC and is principally engaged in the provision of logistics services. Since 16 January 2020, the Group has held 14.43% equity investment in Dongfeng Logistics. And before the developments outlined below, the Group has had significant influence over Dongfeng Logistics through its representation on the board of directors and had been equity-accounting for the interest as an interest in an associate.

After ITG Holding became the controlling shareholder of the Company in 2021, the Group decided to focus on its core 4S dealership business based on the Group's 2021–2025 development strategy plan and commenced its divestment plan on other non-core businesses, including the equity investment in Dongfeng Logistics. In this connection, the Group has engaged a financial adviser to assist with the potential disposal of its entire equity investment in Dongfeng Logistics ("Potential Disposal") and has been actively identifying and negotiating with potential buyers with an objective of achieving a completed sale within 2023, subject to fulfilment of any relevant regulatory requirements. As of 31 December 2022, the Group entered into non-binding agreements with two potential buyers. However, the interest in Dongfeng Logistics has not been classified as held-for-sale because the various regulatory and shareholder approvals required for the sale transaction are outside the Group's control, and as such the directors of the Company considered that it is not highly probable that the sale would be completed within one year notwithstanding the Group's objective stated above.

In addition, since the Group has commenced its plan to dispose its entire equity investment in Dongfeng Logistics, the controlling shareholder of Dongfeng Logistics considered that the Group was no longer suitable for participating in the financial and operation policy decisions of Dongfeng Logistics. Accordingly, on 6 December 2022 the director nominated by and representing the Group in Dongfeng Logistics resigned from its board. On 29 December 2022, the resignation of the director nominated by the Group has been approved by the extraordinary general meeting of Dongfeng Logistics and, on the same date, the Group irrevocably given up its related right in the articles of Dongfeng Logistics to nominate a board representative.

13 OTHER FINANCIAL ASSETS/(LIABILITIES) (Continued)

(iv) Equity investment in Dongfeng Logistics (Continued)

In view of the aforementioned developments, in particular the loss of the Group's right to participate in the financial and operation policy decisions of Dongfeng Logistics, the Group has concluded that there was a significant change in circumstances about how significant influence can be exercised over Dongfeng Logistics and that the Group lost significant influence over Dongfeng Logistics in December 2022. Consequently, since then the Group has ceased the use of the equity method of accounting in respect of its investment in Dongfeng Logistics and has recognised its interests in Dongfeng Logistics as a financial asset at fair value through profit or loss. In accordance with the valuation report issued by an external valuer on 27 March 2023, the fair value of the equity interest held by the Group in Dongfeng Logistics at the date when significant influence was lost was RMB944,947,000, the valuation methods and inputs used in the fair value measurements are set out in note 25.

As at 30 June 2023, the fair value of the equity investment in Dongfeng Logistics was RMB944,947,000, which was the same as that of 31 December 2022, as the management of the Group considered that no material changes in relation to the significant inputs for the fair value measurement have occurred during the six months ended 30 June 2023.

14 INVENTORIES

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
4S dealership business		
— Motor vehicles	2,558,130	3,044,340
— Automobile spare parts	295,850	313,179
— Others	47,434	46,166
	2,901,414	3,403,685
Comprehensive properties business		
— Properties under development for sale	679,139	660,585
	3,580,553	4,064,270

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

	Six months ended 30 June 2023 RMB'000	Six months ended 30 June 2022 RMB'000
Carrying amount of inventories sold	11,372,991	9,790,629
Write-down of inventories	46,663	33,607
	11,419,654	9,824,236

15 TRADE AND BILLS RECEIVABLES

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 3 months	893,601	900,002
Over 3 months but within 1 year	2,163	2,178
Over 1 year	5,225	5,262
	900,989	907,442
Trade receivables	900,989	907,123
Bills receivables	—	319
Trade and bills receivables	900,989	907,442

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 risks are monitored on an ongoing basis.

Credit risk in respect of trade and bills receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent receivables from individual customers, who obtain mortgages from their financial institutions and used the drawn-down mortgage principal to settle the Group's trade receivables within one month when the mortgages were granted by their financial institutions, and warranty receivables from automobile manufacturers. For the receivables from automobile manufacturers, risk of default is considered low, as these are companies with good credit rating.

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Prepayments		278,441	402,403
Deposits		359,496	399,940
Other receivables	(i)	3,627,158	3,261,174
		4,265,095	4,063,517

(i) The Group earns vendor rebates under various and differing arrangements with automobile manufacturers. Rebates based on purchase or sales volumes are granted by vendors if certain purchase or sales targets are met. Performance rebates are granted by vendors in accordance with the vendors' comprehensive assessment of the Group's business performance.

All of the prepayments, deposits and other receivables are expected to be recovered within one year.

17 PLEDGED BANK DEPOSITS

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Bank loans	(i)	3,297,382	2,543,328
Bills payable	(i)	1,315,292	1,413,887
Standby letters of credit	(ii)	272,000	—
		4,884,674	3,957,215

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

(ii) The bank deposits pledged for the standby letters of credit will be released upon the maturity day of the standby letters of credit.

18 CASH AND CASH EQUIVALENTS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Cash at banks and on hand	704,939	734,086

19 LOANS AND BORROWINGS

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Current		
Unsecured bank loans	2,731,366	2,421,475
Current portion of unsecured long-term bank loans	964,870	947,899
Unsecured interest-bearing borrowings due to other financial institutions	1,341,920	647,900
Unsecured interest-bearing borrowings due to related parties (note 28)	1,600,852	1,566,849
Secured bank loans	5,818,350	4,093,049
Current portion of secured long-term bank loans	656,080	271,355
Secured interest-bearing borrowings from other financial institutions	2,060,911	2,285,503
Sub-total	15,174,349	12,234,030
Non-current		
Unsecured bank loans	885,000	1,452,792
Unsecured interest-bearing borrowings from other financial institutions	669,710	510,300
Unsecured interest-bearing borrowings due to related parties (note 28)	2,495,661	3,194,941
Secured bank loans	140,310	713,950
Secured interest-bearing borrowings from other financial institutions	731,650	567,874
Sub-total	4,922,331	6,439,857
Total	20,096,680	18,673,887

As at 30 June 2023, unsecured loans and borrowings from banks and other financial institutions of RMB5,205 million were guaranteed by ITG Holding (31 December 2022: RMB4,052 million).

20 TRADE AND OTHER PAYABLES

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Current		
Within 3 months	2,798,811	3,379,485
Over 3 months but within 6 months	376,068	454,091
Over 6 months but within 12 months	5,462	6,595
Trade and bills payable	3,180,341	3,840,171
Contract liabilities	479,602	1,215,170
Other payables and accruals	637,766	771,927
Payables due to related parties	2,373	507
	4,300,082	5,827,775
Non-current		
Long-term payables	168,364	186,648
	4,468,446	6,014,423

21 FINANCIAL GUARANTEES ISSUED

In March 2016, Wuhan Zhengtong United Industrial Investment Group Co., Ltd. ("Wuhan Zhengtong"), an indirect wholly-owned subsidiary of the Company, had entered into an undertaking (the "2016 Undertaking") to provide financial guarantees for Beijing Guangze Real Estate Development Co., Ltd. ("Beijing Guangze")'s obligations to 1). pay the redemption price for the equity investment made by Ningbo Yuchen Fengze Equity Investment Partnership (Limited Partnership) ("Yuchen Fengze") in Beijing Zunbaocheng Real Estate Co., Ltd. ("Beijing Zunbaocheng") and Beijing Baoze Automobile Technology Development Co., Ltd. ("Beijing Baoze") ("Equity Investment Redemption Obligation"); and 2). repay the outstanding loan balance owed by Beijing Guangze to Yuchen Fengze ("Unsettled Loan Balance"). In March 2020, Wuhan Zhengtong renewed the 2016 Undertaking as certain shortfall agreements ("2020 Shortfall Agreements") to further provide financial guarantees for the Equity Investment Redemption Obligation and the Unsettled Loan Balance.

Beijing Guangze is a company indirectly controlled by a family member of Mr. Wang Muqing. Wang Muqing and Wang Muqing's family member had been the controlling shareholder of the Group when the 2020 Shortfall Agreements were entered into and until 31 August 2021, and ceased to be a related party of the Group from 23 June 2022. Beijing Guangze holds 8.6758% and 4.3478% equity interest in Beijing Zunbaocheng and Beijing Baoze, respectively.

Other than by the financial guarantees provided by Wuhan Zhengtong as mentioned above, the Equity Investment Redemption Obligation and Unsettled Loan Balance were also secured by, among other things, certain land use rights and properties located in Beijing, belonging to Beijing Zunbaocheng and Beijing Baoze (the "Pledged Assets") since 2016.

On 17 December 2021, the Company was notified that a court judgement had been granted by the Ningbo Intermediate People's Court in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong.

21 FINANCIAL GUARANTEES ISSUED (Continued)

On 28 December 2021, the Company was notified that another court judgement had been granted in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong by the Yangzhou Intermediate People's Court (together with the aforementioned court judgement being notified on 17 December 2021, as "First Instance Judgement").

Pursuant to the First Instance Judgement, Beijing Guangze shall:

— pay to Yuchen Fengze a principal amount of RMB420 million together with interest, comprising, among others, the redemption price for the equity investment made by Yuchen Fengze in Beijing Zunbaocheng and Beijing Baoze. Wuhan Zhengtong was held jointly and severally liable for the same amount (the "Equity Investment First Judgement");

— pay to Yuchen Fengze approximately RMB1.41 billion (comprising the loan principal of RMB1.35 billion, accrued interest, default interest and compound interest) and late payment interest, the actual amount of which will increase with time and relevant costs. Wuhan Zhengtong was held jointly and severally liable for the same amount (the "Loan First Instance Judgement").

Wuhan Zhengtong filed appeals against the First Instance Judgement through Zhejiang, Jiangsu Higher People's Court, respectively (the "Appeals").

The Company received the second instance judgement in respect of the Equity Investment First Instance Judgement from Zhejiang Higher People's Court on 23 June 2022, pursuant to which, Zhejiang Higher People's Court disagreed with and overturned the first instance judgement that Wuhan Zhengtong was jointly and severally liable for the amounts involved. Pursuant to the second instance judgement, Wuhan Zhengtong was the guarantor but not an obligor who was jointly and severally liable for the amounts owed by Beijing Guangze (i.e. Wuhan Zhengtong was responsible for only the shortfalls if Beijing Guangze fails to fulfill its repayment obligations), and after paying Yuchen Fengze under its guarantee obligations, Wuhan Zhengtong shall be entitled to claim a repayment from Beijing Guangze to the extent of the guarantee obligation it has performed.

On 12 January 2023, Wuhan Zhengtong and Yuchen Fengze entered into a settlement agreement (the "Settlement Agreement"), pursuant to which Wuhan Zhengtong withdrew its appeal against the Loan First Instance Judgement and Yuchen Fengze agreed to facilitate the disposal of the collateral assets, including the Pledged Assets, in satisfaction of the debt owed to it.

According to the PRC legal opinion issued by an external legal advisor, the Group is only obliged to pay the shortfall based on the 2020 Shortfall Agreements and the Settlement Agreement, if any, when Yuchen Fengze has shortfalls to recover the debt owed to it, by collecting the proceeds of disposal of the collateral assets.

Accordingly, cash shortfalls for the Group are the expected payments to reimburse Yuchen Fengze for any shortfall after Yuchen Fengze has collected the proceeds of the disposal of the collateral assets to recover the debt owed to it.

The maximum amount guaranteed by Wuhan Zhengtong with the 2020 Shortfall Agreements as at 30 June 2023 was RMB1.93 billion (31 December 2022: RMB1.93 billion). Both the Equity Investment Redemption Obligation and the Unsettled Loan Balance were collateralized by the Pledged Assets.

The fair value of the Pledged Assets and the estimated net realisable amount calculated as fair value less cost to sell as at 31 December 2022 were RMB2.79 billion and RMB1.97 billion, respectively, according to the valuation reports issued by an external valuer on 27 March 2023. As the management of the Group considered that no material changes in relation to the significant input for the fair value measurement of the Pledged Assets, the fair value and the estimated net realisable amount of the Pledged Assets as at 30 June 2023 were assessed to be the same as those of 31 December 2022, i.e., RMB2.79 billion and RMB1.97 billion, respectively.

21 FINANCIAL GUARANTEES ISSUED (Continued)

The initial fair value of the financial guarantees was measured for the future net cash outflow based on the credit spread (after considering macroeconomic and industry factors) of Beijing Guangze, the maximum exposure and value of the Pledged Assets, as well as a discount factor. Subsequently, the financial guarantee contract was measured at the higher of the initial recognised amount, minus accumulated amortisation (which was nil accordingly), and the expected credit loss allowance. As at 30 June 2023 and 31 December 2022, the expected credit loss allowances for the financial guarantees, based on the Group's expected net cash outflows, were assessed to be immaterial based on the value of the Pledged Assets, and other factors such as the volatility of the value, and disposal expenses, of the Pledged Assets.

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the restricted shares award scheme ("Share Award Scheme") on 12 June 2020 ("Grant Date"), 47,100,000 restricted shares of the Company ("Restricted Shares") were approved for granting to core employees of the Group. The fair value of the Restricted Shares granted under the respective grant dates is RMB1.13 per share, as determined based on the average market price at the Grant Date and the subscription price is nil.

The Restricted Shares are subject to various lock-up period (the "Lock-Up Period") of 1 year, 2 years, 3 years and 4 years, respectively, immediately from the Grant Date. During the Lock-Up Period, these shares are not transferrable, nor subject to any guarantee or indemnity.

Subject to fulfilment of all service and performance conditions under the Share Award Scheme which include Participants' individual performance appraisal (referred to as "vesting conditions"), the restriction over the Restricted Shares will be removed after the expiry of the corresponding lock-up period for each tranche and the Participants will be fully entitled to these incentive shares. If the vesting conditions are not fulfilled and hence the Restricted Shares cannot be unlocked, all the unvested or outstanding Restricted Shares not yet vested shall be immediately forfeited.

(a) The terms and conditions of the grants are as follows:

	Number of restricted shares	Vesting conditions
Restricted shares granted to employee work less than 5 years		
— on 12 June 2020	5,580,000	Two years from the date of grant
— on 12 June 2020	5,580,000	Three years from the date of grant
— on 12 June 2020	5,580,000	Four years from the date of grant
Restricted shares granted to employee work more than 5 years, within 10 years		
— on 12 June 2020	5,320,000	One year from the date of grant
— on 12 June 2020	5,320,000	Two years from the date of grant
— on 12 June 2020	5,320,000	Three years from the date of grant
Restricted shares granted to employee work more than 10 years		
— on 12 June 2020	14,400,000	One year from the date of grant
Total restricted shares granted	47,100,000	

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of restricted shares are as follows:

	At 30 June 2023		At 31 December 2022	
	Weighted average exercise price	**Number of restricted shares**	Weighted average exercise price	Number of restricted shares
Outstanding at the beginning of the period/year	**RMB0**	**6,960,000**	RMB0	17,480,000
Exercised during the period/year	**RMB0**	**—**	RMB0	(6,020,000)
Forfeited during the period/year	**RMB0**	**(240,000)**	RMB0	(4,500,000)
Outstanding at 30 June/31 December	**RMB0**	**6,720,000**	RMB0	6,960,000

Total expenses of RMB864,000 (six months ended 30 June 2022: RMB1,324,000) were recognised as personnel expenses during the six months ended 30 June 2023.

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) No interim dividend was proposed after the end of reporting periods of six months ended 30 June 2023 and 30 June 2022.

(ii) No final dividend was proposed in respect of the previous financial year, approved and paid during the reporting periods of six months ended 30 June 2023 and 30 June 2022.

(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 2023		At 31 December 2022	
	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	**2,744,542**	**274,454**	2,744,542	274,454
Issue of ordinary shares by placement (i)	**122,560**	**12,256**	—	—
At 30 June/31 December	**2,867,102**	**286,710**	2,744,542	274,454
RMB equivalent ('000)		**246,394**		235,203

(i) Pursuant to a share placing agreement dated on 7 June 2023, the Company completed a share placing by issuing 122,560,000 ordinary shares at a price of HK$0.48 per share on 15 June 2023. The gross proceeds of HKD58,829,000 (equivalent to RMB53,718,000), net of direct share placement expenses of HKD2,904,000 (equivalent to RMB2,652,000), were raised, of which RMB11,191,000 and RMB39,875,000 was credited to share capital and share premium account, respectively.

24 PERPETUAL BONDS

Perpetual Bond 1

On 28 February 2023, Wuhan Zhengtong, an indirect wholly-owned subsidiary of the Company, issued perpetual bonds to a third party with a principal amount of RMB200,000,000 at an initial interest rate of 8.5% per annum ("Perpetual Bond 1"). The proceeds from issuance of the Perpetual Bond 1 were RMB200 million. Coupon interest of 8.5% per annum are expected to be paid quarterly with the payment date being the 20th of the last month in each quarter in arrears and may be deferred at the discretion of Wuhan Zhengtong.

The Perpetual Bond 1 has no fixed maturity and is callable at Wuhan Zhengtong's option at its principal amount together with any accrued, unpaid or deferred coupon interest payments ("Call Option 1"). The coupon rate will be 1) increased by a margin of 150 basis points (i.e., 1.5%) per annum and applied prospectively but with an annual interest cap of 10% if the Call Option 1 is not exercised by Wuhan Zhengtong after two years of issuance, or 2) adjusted to increase by 10% a time and applied prospectively once Wuhan Zhengtong elects to defer coupon interest payments at each payment date but with an annual interest cap of 10%. While any coupon interest is unpaid or deferred, Wuhan Zhengtong cannot declare or pay dividends or reduce registered capital. Pursuant to the terms of Perpetual Bond 1, Wuhan Zhengtong has no contractual obligations to repay the principal or to pay any coupon interest.

Perpetual Bond 2

On 14 April 2023 and 12 June 2023, Wuhan Zhengtong issued perpetual bonds to a third party with a principal amount of RMB100,000,000 and RMB100,000,000 at an initial interest rate of 8.5% and 8.0% per annum, respectively ("Perpetual Bond 2"). The total proceeds from issuance of the Perpetual Bond 2 were RMB200 million. Coupon interest of 8.5% and 8.0% per annum are expected to be paid quarterly with the payment date being the 20th of the last month in each quarter in arrears and may be deferred at the discretion of Wuhan Zhengtong.

The Perpetual Bond 2 has no fixed maturity and is callable at Wuhan Zhengtong's option at its principal amount together with any accrued, unpaid or deferred coupon interest payments ("Call Option 2"). The coupon rate will be 1) increased by a margin of 150 basis points (i.e., 1.5%) per annum and applied prospectively but with an annual interest cap of 10% and 9.5%, respectively if the Call Option 2 is not exercised by Wuhan Zhengtong after two years of issuance, or 2) adjusted to increase by 10% a time and applied prospectively once Wuhan Zhengtong elects to defer coupon interest payments at each payment date but with an annual interest cap of 10% and 9.5%, respectively. While any coupon interest is unpaid or deferred, Wuhan Zhengtong cannot declare or pay dividends or reduce registered capital. Pursuant to the terms of Perpetual Bond 2, Wuhan Zhengtong has no contractual obligations to repay the principal or to pay any coupon interest.

Perpetual Bond 3

On 30 June 2023, ITG Holding Investment (HK) Limited ("ITG HK"), a fellow subsidiary controlled by the controlling shareholder of the Company, entered into a written agreement with the Company, pursuant to which the existing unsecured short-term interest-bearing borrowing provided by ITG HK to the Company with a principal amount of USD124,547,000 (equivalent to RMB899,951,000) was converted into a debt with no fixed maturity ("Perpetual Bond 3") and is callable at the Company's option. Coupon interest of 5.0% per annum are paid annually in arrears and may be deferred at the discretion of the Company.

Pursuant to the terms of Perpetual Bond 3, the Company has no contractual obligation to repay the principal or to pay any coupon interest.

24 PERPETUAL BONDS (Continued)

As the Perpetual Bonds 1 to 3 only impose contractual obligations on the Group to repay the principal or to pay any distributions under certain circumstances which are at the Group's discretion, they have in substance conferred upon the Group an unconditional right to avoid delivering cash or other financial asset to settle contractual obligations, and therefore do not meet the definition of a financial liability in accordance with HKAS 32, *Financial Instruments: Presentation*. As a result, Perpetual Bonds 1 to 3 are classified as equity and distributions, if and when declared, are treated as equity dividends.

As Perpetual Bonds 1 to 2 were issued by Wuhan ZhengTong, an indirect wholly-owned subsidiary of the Company, to external third parties, and could not be treated as equity attributable directly or indirectly to the equity shareholders of the Company, therefore, they are recorded in the non-controlling interests in the consolidated statement of financial position according to HKFRS 10, *Consolidated Financial Statements*. During the six months ended 30 June 2023, the profit attributable to the bond holders of Perpetual Bonds 1 to 2, based on the applicable coupon interest rate, amounted to RMB7,870,000 (six months ended 30 June 2022: nil), out of which RMB7,142,000 has been distributed to the relevant bond holders (six months ended 30 June 2022: nil).

Perpetual Bond 3 was recorded directly in equity attributable to equity shareholders of the Company. During the six months ended 30 June 2023, no distribution was made to the bond holder of Perpetual Bond 3.

25 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

Fair value hierarchy

The fair value of the Group's financial instruments is categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair Value measurement*. The level, into which a fair value measurement is classified, is determined with the reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

25 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Financial assets and liabilities measured at fair value (Continued)

The following table presents the Group's assets/(liabilities) that are measured at fair value.

	Fair value at 30 June 2023 RMB'000	Fair value measurement as at 30 June 2023 categorised into			Fair value at 31 December 2022 RMB'000	Fair value measurement as at 31 December 2022 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
Assets:								
Forward contracts (note (i))	32,375	–	32,375	–	13,592	–	13,592	–
Option contracts (note (ii))	97,568	–	–	97,568	–	–	–	–
Wealth management products (notes (i) and (ii))	133,105	–	60,508	72,597	89,969	–	–	89,969
Equity investment in Dongfeng Logistics (note (ii))	944,947	–	–	944,947	944,947	–	–	944,947
	1,207,995	–	92,883	1,115,112	1,048,508	–	13,592	1,034,916
Liabilities:								
Forward contracts (note (i))	–	–	–	–	(91,516)	–	(91,516)	–
Option contracts (note (ii))	(5,977)	–	–	(5,977)	–	–	–	–
	(5,977)	–	–	(5,977)	(91,516)	–	(91,516)	–

During the six months ended 30 June 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2022: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes:

(i) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the forward contracts is determined by forward exchange rate and discounted cash flow method. The discount rate used is the risk-free rate.

The fair value of wealth management products of investment with banks in the PRC determined by reference to quoted prices of instruments similar to the assets being valued, adjusted for factors unique to the assets being valued.

(ii) Information about Level 3 fair value measurements

The fair value of wealth management products purchased from Western Trust is determined with reference to the net assets value report of the wealth management products as provided by the fund manager.

The fair value of equity investment in Dongfeng Logistics is determined with reference to the price/sales ratio of the comparable listed companies and adjusted for lack of marketability discount.

The fair value of the option contracts is determined by Black-Scholes model. The key parameters used include forward exchange rates (from observable forward exchange rate at the end of the reporting period), contracted exchange rates, discount rate, risk-free rate, time to maturity, and volatility.

25 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Financial assets and liabilities measured at fair value (Continued)

Notes: (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

Below is a summary of significant unobservable inputs to the valuation of the financial instruments together with an analysis for the relationship of unobservable inputs to the fair value measurements at the end of reporting period:

30 June 2023 and 31 December 2022

Financial instruments	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to the input
Wealth management products — purchased from Western Trust	Net assets value	Net assets value of the wealth management products	The fair value changes as the net assets value of the wealth management products changes
Equity investment in Dongfeng Logistics (note 13(iv))	Market approach	Price/sales ratio of the comparable listed companies, discounts for lack of marketability	The fair value changes as the price/ sales ratio and discounts for lack of marketability change
Option contracts	Black-Scholes model	Volatility of the foreign exchange rate	The fair value changes as the volatility of the foreign exchange rate changes

25 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Financial assets and liabilities measured at fair value (Continued)

The movements during the period in the balance of these Level 3 fair value measurements was as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Wealth management products:		
At 1 January	89,969	122,589
Redemption of investment	(850)	(37,220)
Fair value change	(16,522)	4,600
At 30 June/31 December	72,597	89,969
Asset held for sale:		
At 1 January	—	1,400,714
Disposal proceeds	—	(1,410,560)
Realised gain during the year	—	9,846
At 30 June/31 December	—	—
Equity investment in Dongfeng Logistics:		
At 1 January	944,947	—
Addition due to loss of significant influence over Dongfeng Logistics (note 13(iv))	—	944,947
At 30 June/31 December	944,947	944,947
Option contracts:		
At 1 January	—	—
Net realised gain during the period/year	58,173	—
Proceeds in relation to settlement	(58,173)	—
Fair value change	91,591	—
At 30 June/31 December	91,591	—
Total gain for the period/year included in profit or loss for assets held at the end of the period/year	133,242	14,446

Any gain or loss arising from the remeasurement of the wealth management products, assets held for sale, equity investment in Dongfeng Logistics and option contracts are presented in the other income in the consolidated statement of profit or loss.

26 COMMITMENTS

Capital commitments outstanding at 30 June 2023 not provided for in the interim financial report:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Contracted for	1,224,075	1,348,320

27 CONTINGENT LIABILITIES

In 2018, Wuhan ZhengTong, a subsidiary of the Company, and Beijing Guangze entered into a general contract agreement (the "General Contractor Agreement") pursuant to which Wuhan ZhengTong engaged Beijing Guangze to undertake the development, establishment, re-establishment and expansion of 4S stores and relevant commercial projects owned by the Group. The contract consideration shall be utilized by Beijing Guangze as the general contractor for such costs as consultant fees for hiring professional service companies, approval and construction application fees, construction and installation fees and ancillary facilities fees. Details of the General Contractor Agreement had been disclosed in the Company's announcement dated 13 March 2018.

In July 2022, the Group received a payment request of RMB6 million from one of the sub-contractors that had been involved in certain 4S Stores and commercial projects (the "Subcontractor"), as Beijing Guangze failed to fulfil its obligations under the General Contractor Agreement.

In accordance with the PRC legal opinion obtained by the Company from an external legal advisor, Beijing Guangze is the primary obligor for the relevant construction payments taking into account such facts and circumstances among others (i) Beijing Guangze had undertaken its general contractor role for the projects since the establishment of relevant contracts in prior years and the Group had entrusted Beijing Guangze with the projects and (ii) the Group had already fulfilled its obligations including the payment made to Beijing Guangze in accordance with the General Contractor Agreement. The historical payments to Beijing Guangze in relation to the Subcontractor is assessed to be approximately RMB236 million.

While the Subcontractor has not initiated any formal legal proceedings against the Group in this connection and the future development cannot be estimated with certainty, the directors of the Company, having given due consideration to the legal advice and the relevant facts and circumstances, are of the opinion that it is not probable that the Group will be sued by the Subcontractor and will need to make payments to the Subcontractor. Therefore, no provision has been made in respect of this matter as at 30 June 2023 (31 December 2022: nil).

As of 30 June 2023, except for the aforementioned contingencies associated with certain construction payments, the Group did not have any material contingent liabilities.

28 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2023, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
ITG Holding 廈門國貿控股集團有限公司	Controlling Shareholder since 17 September 2021
ITG HK 國貿控股投資(香港)有限公司	Controlled by Controlling Shareholder
Xiamen Xindeco Ltd. ("Xindeco") 廈門信達股份有限公司	Controlled by Controlling Shareholder
International Trade Yingtai Financial Leasing (Xiamen) Co., Ltd. ("IT Yingtai") 國貿盈泰融資租賃(廈門)有限公司	Controlled by Controlling Shareholder
Tianxiada Fiance Leasing (Xiamen) Co., Ltd. ("Tianxiada") 天下達融資租賃(廈門)有限公司	Controlled by Controlling Shareholder
Xiamen International Trade Development Co., Ltd. ("IT Development") 廈門國貿發展有限公司	Controlled by Controlling Shareholder
Xiamen ITG Holding Group Finance Co.,Ltd ("ITG Finance") 廈門國貿控股集團財務有限公司	Controlled by Controlling Shareholder
Shandong Xinda IOT Application Technology Co., Ltd. ("Xinda IOT") 山東信達物聯應用科技有限公司	Controlled by Controlling Shareholder

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

28 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Recurring transactions

	Six months ended 30 June	
	2023 **RMB'000**	2022 RMB'000
Technical support and construction design services:		
Xinda IOT	**1,836**	—
Interest-bearing borrowings — (repayments to)/proceeds from related parties, net effect:		
ITG Holding	**(950,200)**	(124,495)
IT Development	**51,920**	—
ITG Finance	**1,499,852**	—
ITG HK	**(366,898)**	585,955
	234,674	461,460

As of 30 June 2023, the Group have obtained financial guarantees from ITG Holding for banking facilities and bank loans and borrowings of RMB7,087 million (31 December 2022: RMB5,736 million).

During the six months ended 30 June 2023, total interest expenses generating from the interest-bearing borrowings due to related parties was RMB157,742,000 (six months ended 30 June 2022: RMB182,765,000).

(b) Balances with related parties

	At 30 June **2023** **RMB'000**	At 31 December 2022 RMB'000
Other payables due to related parties:		
Xindeco and its subsidiary	**2,373**	507
Interest-bearing borrowings due to related parties:		
Current		
ITG Finance	**1,300,852**	—
IT Yingtai	**300,000**	300,000
ITG HK (note 24)	**—**	1,266,849
Sub-total	**1,600,852**	1,566,849
Non-current		
ITG Holding	**1,903,700**	2,853,900
IT Development	**392,961**	341,041
ITG Finance	**199,000**	—
Sub-total	**2,495,661**	3,194,941
Total	**4,096,513**	4,761,790

29 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current period's presentation.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Mingcheng *(Chairman)*
Mr. Li Zhihuang
Mr. Huang Junfeng (appointed on 31 July 2023)
Mr. Zeng Tingyi (resigned on 31 July 2023)

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

REGISTERED OFFICE

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

HEADQUARTERS

4/F, Wuhan Baoze
No. Te 6 Huangpu Technological Park, Jiangan District
Wuhan, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat C, 32/F
Lippo Centre Tower One
89 Queensway
Hong Kong

WEBSITE ADDRESS

www.zhengtongauto.com

COMPANY SECRETARY

Ms. Fung Wai Sum（ACG, HKACG）

AUTHORIZED REPRESENTATIVES

Mr. Wang Mingcheng
Ms. Fung Wai Sum

AUDIT COMMITTEE

Dr. Wong Tin Yau, Kelvin *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

NOMINATION COMMITTEE

Mr. Wang Mingcheng *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

REMUNERATION COMMITTEE

Dr. Cao Tong *(Chairman)*
Mr. Li Zhihuang
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

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
China Construction Bank Co., Ltd.
Bank of Communications Co., Ltd.
Industrial Bank Co., Ltd.
China CITIC Bank Corporation Limited
Ping An Bank Company Limited
Hua Xia Bank Co., Limited
China Zheshang Bank Co., Ltd.
The Bank of East Asia (China) Limited
Xiamen International Bank Co., Ltd.

AUDITORS

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building,
10 Chater Road, Central,
Hong Kong

HONG KONG LEGAL COUNSEL

Reed Smith Richards Butler LLP

STOCK CODE

1728

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

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