正通

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A LEADING LUXURY BRANDS DEALER CONGLOMERATE

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

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MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

For the first half of 2017, China's gross domestic production (GDP) grew by 6.9% year-on-year, indicating an overall trend of stability and growth of the national economy. The per capita disposable income of China was RMB12,932, grew by 8.8% year-on-year, and after deducting the price factor, the actual growth was 7.3%. Comparing with GDP growth the increase was higher by 0.4 percentage point for the first half of the year.

According to statistics released by the China Association of Automobile Manufacturers, sales of passenger automobiles in China during the first half of 2017 increased by 1.9% year-on-year, to 11,253,000 units, representing a lower growth rate of 7.62 percentage points as compared to the corresponding period of last year. While the overall market of the passenger automobiles saw a steady growth year-on-year, the market of the luxury-branded automobiles experienced growths to a different extent, but the competition was also intensified. Among the major brands under the Group's dealership, for the first half of the year, the sales volume of BMW and MINI branded automobiles in China reached 293,280 units, representing a year-on-year growth of 18.4% (same period of 2016: 247,644 units); the sales volume of Audi branded automobiles in China was 253,635 units, representing a year-on-year negative growth of 12.6% (same period of 2016: 290,126 units); the sales volume of Benz branded automobiles in China was 304,017 units, representing a year-on-year growth of 41.1% (same period of 2016: 215,527 units); the sales volume of Jaguar and Land Rover branded automobiles in China was 67,103 units, representing a year-on-year growth of 26.2% (same period of 2016: 53,156 units); the sales volume of Volvo branded automobiles in China was 51,914 units, representing a year-on-year growth of 27.6% (same period of 2016: 40,688 units); and the sales volume of Porsche branded automobiles in China was 35,864 units, representing a year-on-year growth of 17.8% (same period of 2016: 30,440 units). As a core dealer Group for many leading luxury brands in China, the Group continues to collaborate closely with respective automobile manufacturers to expand China's market and strives to identify industry dynamics and maximize service opportunities fostered by changing trend of automotive consumer habit. In addition to further improving its existing services, the Group also actively explored innovative service models to further enhance customers' service experience leveraging on its diversified brand portfolios, efficient and optimal sales network and well-rounded sales and services platform.

During the first half of 2017, while strengthening the traditional after-sale services for automobiles such as repair, maintenance and sale of accessories, the Group made full use of its unique characteristics to develop new businesses. In particular, the introduction of financial services business had made a significant progress that financial cooperation with manufacturers was consolidated to provide customers with additional services. The Group offered customers more personalized and competitive auto finance solutions, which were significantly supported by the growth of the sales of new and pre-owned automobiles, financial leasing and customer relationship development.

In future, the auto service industry will focus more on high quality, personalized and integrated services, based on the existing business network, the Group will further expand its business presence and improve the profitability of new outlets. In order to enrich the personalized automobile-related services for customers, the Group will continue to invest in innovation. The Group will also strive to enhance internal management efficiency and service platform and explore customer base and consolidate its competitive strengths. The Group is also committed to providing quality, convenient and comprehensive automobile-related services in order to create greater values for the shareholders and employees of the Group as well as the society.

The Group's remarkable performance in the first half of 2017 is attributable to the dedication of employees as well as the trust and support of its business partners and shareholders. On behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and customers for their long-term support and trust, as well as our loyal staff for their hard work and valuable contributions to the Group over the first half of 2017.

BUSINESS REVIEW

In the first half of 2017, the Group continued concentrating on sales of luxury and ultra-luxury branded automobiles and its traditional after-sales services, while making significant efforts to its high value-added after-market businesses in the sectors of auto financing, financial leasing, insurance brokerage, pre-owned automobiles, etc. For the six months ended 30 June 2017, the Group recorded a revenue of approximately RMB15,628 million, representing a year-on-year increase of approximately 7.1%, and gross profit of approximately RMB1,734 million, representing a year-on-year increase of approximately 29.0%. Profit attributable to shareholders of the Company was approximately RMB516 million with basic earnings per share of approximately RMB23.3 cents, representing a year-on-year growth of 104.0% and 102.6% respectively.

(1) Sales of new automobiles business

In the first half of 2017, the Group achieved steady growth in the sales volume of new automobiles despite growing competition, largely attributed to its emphasis on unlocking its same-store sales and consolidating its existing regional competitive strengths as well as thoughtful network expansion. For the six months ended 30 June 2017, the Group reported the sales volume of new automobiles of 46,050 units, representing a year-on-year increase of approximately 3.5%, including 34,021 units luxury and ultra-luxury branded automobiles with a year-on-year increase of 8.1%. During the first half of the year, the auto manufacturers of major brands under the Group's dealership continued to strengthen their product offerings with new models, the average selling prices continued a stable upward trend, and respective brands' margin diverge as the competition landscape shifts.

For the first half of 2017, the Group's gross profit from the sales of new automobiles amounted to RMB634 million, representing a year-on-year increase of approximately 62.6%, the gross profit margin of sales of new automobiles grew by approximately 1.7 percentage point, from 3.1% for the first half of 2016, to 4.8% for the first half of 2017.

(2) After-sales services business

The steady growing car ownership in China continued to contribute to the expansion in after-sales services in the automobile market. Regulation and policy changes related to spare parts and components foster both new growth opportunities and competition. For the first half of 2017, the Group provided services to 526,823 vehicles, representing a year-on-year growth of 10.8%. The Group made great efforts to enhance our customer loyalty, while ensuring positive growth in revenue and gross profit for the after-sales service business by increasing the overall throughputs in response to adjustments in the prices of spare parts and components. Meanwhile, the Group was actively engaged in the research, development and marketing of new products and services. For example, in terms of the marketing, the Group enhanced the development of customized solutions in maintenance, repairing, warranty renewal and extension by leveraging our favorable strengths, in order to further increase our product penetration rate. In terms of service experience, the Group provided more efficient services to customers through instant appointment and express bodywork. Our loaner vehicle services included loaner vehicle insurance and loaner vehicle subsidies for customers. Regarding cost control, the Group reorganized its departments and optimized its centralized procurement channels and management of inventory and spare parts to facilitate stringent control over costs.

(3) Finance and insurance business

In the first half of 2017, the Group made focused efforts to build up a financial business segment with Shanghai Dongzheng Automotive Finance Co., Ltd. ("Dongzheng AFC") as the core, a personalized and diversified financial service platform, on which the Group develops and provides differentiated, diversified and customer-oriented financial products and services, including loan products of Dongzheng AFC, financial leasing products of Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. and other financial products collaborated with auto manufacturer partners.

Internet auto finance platform fostering competitive strengths in differentiation

China's auto consumer finance market is embracing a period of rapid growth. During the first half of 2017, by fully leveraging on the Group's unique competitive strengths in product design, risk control and marketing channels, Dongzheng AFC reported a rapid growth in high quality loan assets in relation to numerous automobile brands across the country in a relatively short period of time.

Dongzheng AFC will further identify different types of customer demands and embark on extensive strategic cooperation with OEMs or dealership groups to broaden the channels for its retail loan business. In the meantime, it will also explore potential financing demands relating to automotive logistics commercial vehicles and pre-owned automobiles.

The internet auto finance platform has been taking shape. In terms of customer resources, part of the Dongzheng AFC's customers are from the 4S stores, and the rest are from the main auto consumption websites. In terms of risk control, the big-data intelligent risk control platform has been completed. In terms of asset exchange platform, Xiamen International Financial Asset Exchange Co., Limited, invested by the Group, is a new internet circulation and information exchange platform combined with ABS factory, ABS database and ABS research institution.

We have already established a well-rounded web-based ecosystem to facilitate online to offline customer acquisition, big-data based risk control management system, and ABS related online auto finance transaction platform.

On 1 June 2017, Dongzheng AFC received the Approval from the Shanghai Office of The China Banking Regulatory Commission to approve the increase of the registered capital of Dongzheng AFC from RMB0.5 billion to RMB1.6 billion with the original shareholders and the shareholding proportion to be remained unchanged.

With the further improvement on consumers' credit record and the further awareness on the use of personal consumer credit services in the PRC, the penetration of the automobile consumer finance services has grown rapidly and the market size has experienced a fast expansion in the PRC. The Company has seen a rapid growth in its automobile financing business for the past two years. The Capital Increase will substantially improve Dongzheng AFC's capital adequacy ratio and financing capacity and reduce its finance costs, which will facilitate its expansion of business scale and the enhancement of its profitability, and will in turn further enhance the Company's overall competitiveness in the financial services sector and increase return on the shareholders' investment.

Growing maturity of the insurance brokerage business

For the insurance brokerage business, the Group further increased its penetration rate for insurance renewal in the first half of 2017 while sustaining a currently high penetration rate for new insurance policy. In the context of the reform of auto insurance rates in China, the Group is developing e-platform for its insurance brokerage business to facilitate online interaction and offline cooperation among the insurers, insurance brokers, customers and staff to increase the service quality and efficiency of the insurance brokerage business. In the future, the Group will continue to develop its insurance brokerage business by enhancing its e-platform and product display as well as distinctive product portfolios, such that insurance brokerage will become a more independent business segment.

(4) Supply chain business

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

In order to further support the rapid development of the supply chain business, under the strong support from the government of Wuhan City, the Company proposed to establish an automobile supply chain platform with coverage in China's major cities. On 29 June 2017, the Company and Wuhan Economic and Technological Development Zone officially signed a cooperation agreement for Shengze Jietong logistics base project.

The proposed base is located at upper stream of Wuhan Vessel Trading Centre, Dengnan Operations Area of Hannan Port Area in Wuhan Economic and Technological Development Zone, with land area of approximate 256 acres. The proposed base is only 150 meters away from the Yangtze River enjoying resources of 460 meters shoreline, the base is adjacent to Wuhan-Jianli Expressway, Beijing-Zhuhai Expressway and Shanghai-Chengdu Expressway as well as it is around 80 kilometers away from Tianhe Airport and high-speed railway. The base can be direct access to Junshan Line Railway Station for the line from Dongxihu and Zhuankou, which is subsequent plan by the government. The main construction of the project would be included 4 quay berths, 200,000 square meters multi-storey automobiles warehouse integrated with intelligent logistics platform, 150,000 square meters spare parts warehouse as well as office and living supporting facilities area. Leveraging on the current supply chain network of Dongfeng and GAC Group, together with FAW Group's five major production base and two distribution center supply chain network, it is strategically positioned as multimodal transport system with railway and vessel, so called "three vertical and four horizontal", and riding on the existing mutual transportation mode between truck transportation and short-distance regional transfer, in order to build the largest regional logistics hub in Central China, to be one of the largest express logistics channel network in China. The project is scheduled to be completed in 2019, and will be fully operated in 2020, it is estimated that the handling capacity can reach 800,000 vehicles per annum.

(5) Network development

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

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

As of 30 June 2017, the Group operated 113 dealership stores in 40 cities across 16 provinces and municipalities in China. During the first half of 2017, the Group had 5 new operating dealership stores for luxury automobiles, by opening 3 new stores namely a Porsche 4S store in Guangzhou, an Audi 4S store in Baoding and a Benz 4S store in Suzhou; simultaneously, there are increases in 2 Benz 4S stores in Zhejiang Yiwu and Yongkang through the acquisition. The Group's Benz dealership business has successfully entered the strategic market in East China.

There are 19 dealership stores under development or to be developed, which are franchised by core luxury automobile brands, such as Porsche, Benz, Audi, BMW, Jaguar and Land Rover as well as Volvo, covering first-tier cities including Beijing, Shanghai, Shenzhen and Chongqing, as well as regions with potential for rapid development, such as Yunnan, Jiangsu, Sichuan, Hubei, Hunan, Hainan and Guangdong, in further enhancement of the Group's advantage in scale and channels.

The following table sets forth the details of our dealership stores as at 30 June 2017:

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S store for luxury and ultra-luxury brands	83	18	101
4S store for mid- to high-end brands	13	0	13
Urban showroom for 4S stores	11	0	11
Authorized repair service centre for luxury brands	6	0	6
Pre-owned automobile centre	0	1	1
Total	113	19	132

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

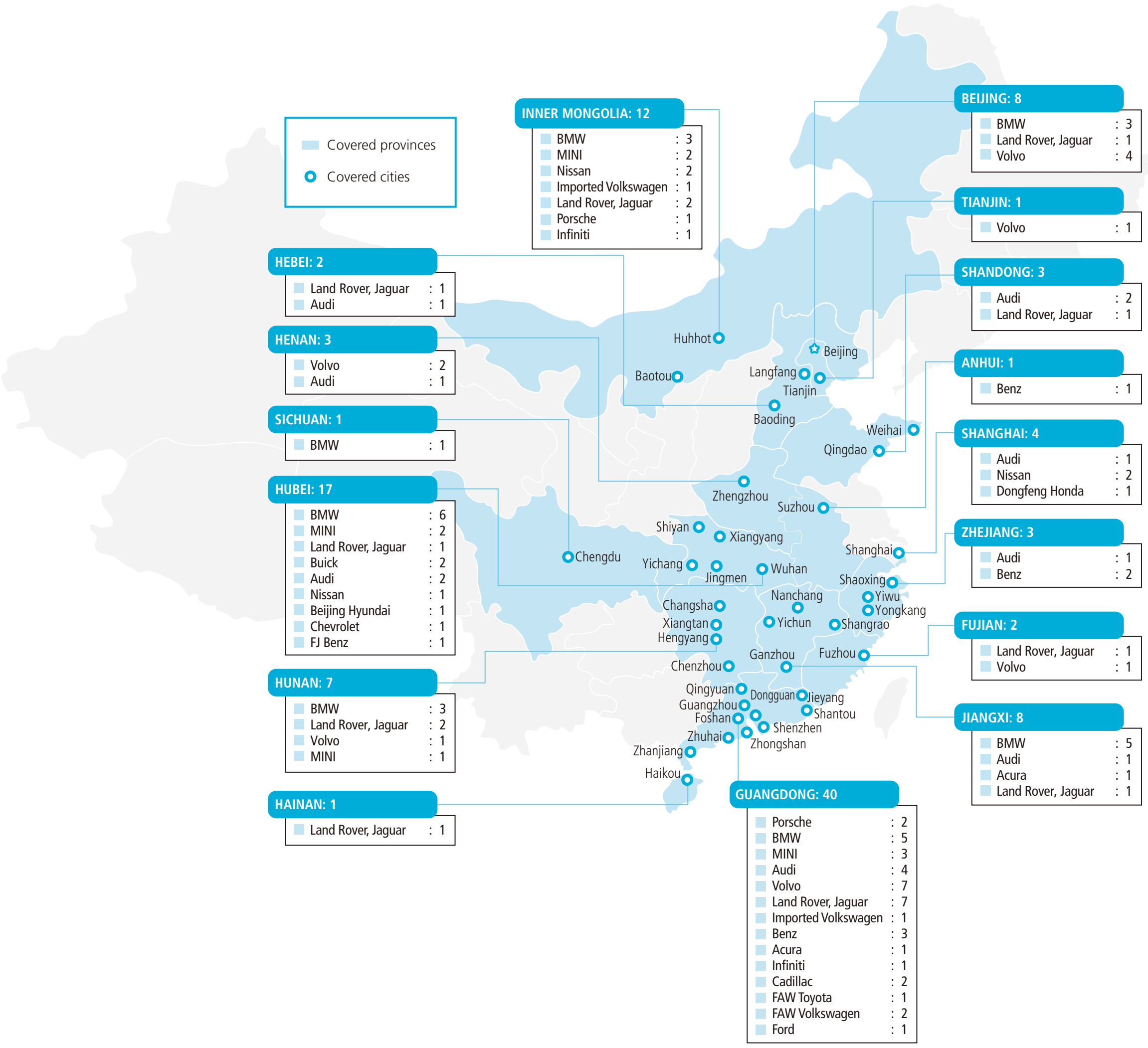
Innovation of Expansion Model – Strategic Operation Management Cooperation Scheme ("SOMCS")

On 4 August 2017, the Board of the Company announced that the Company's wholly-owned subsidiary ZhengTong Automobile Services Co., Ltd and two natural persons, Ms. Li Wangxing and Mr. Lin Yihao, have entered into a framework agreement regarding SOMCS of BMW vehicles dealership, vehicles repair and other related business in China (the "Framework Agreement"). The cooperation covers Shenzhen, Guangzhou, Foshan and Jieyang with a total of 6 BMW 4S stores, 1 MINI 4S store, 2 BMW showrooms and 1 repair centre (the "Target Vehicles Dealership Outlets"). The Target Vehicles Dealership Outlets are wholly-owned by Ms Li and Mr. Lin, who are the ultimate controlling shareholders. Both parties intend to carry out substantial cooperation with respect to BMW vehicles dealership network. The Company shall take initiatives to enhance the existing operation quality and profitability of the Target Vehicles Dealership Outlets in all aspects.

SOMCS shall further enhance the Group's network on the BMW brand, escalate profitability on BMW brand through leveraging on Group's auto extended and integrated value-added platforms, initiate an industrial standard for future management outsourcing by the Group, and optimize our capital deployment and capital structure, in order to effectively enhance the return of shareholders' equity.

At the date of the report, the respective due diligence of the SOMCS is working in progress. The terms of the SOMCS shall be determined through negotiation by both parties to the Framework Agreement upon due diligence review on the Target Vehicles Dealership Outlets by the accountants appointed by the Company. Further announcement will be duly made in relation to the particulars of the SOMCS in accordance with the Listing Rules.

BALANCED NATIONWIDE DEALERSHIP NETWORK



Total number of dealership stores in operation in the PRC as at 30 June 2017: 113

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2017, the Group recorded a revenue of approximately RMB15,628 million, representing an increase of approximately 7.1% as compared to the revenue of approximately RMB14,596 million in the first half of 2016. The increase was mainly due to an increase in number of dealership stores, a pickup in sales of new automobiles and rapid increase in automobile financing revenue in the period under review.

Revenues of the Group were derived from the sales of new automobiles, after-sales services, financial services and other business. In the first half of 2017, revenue from the sales of new automobiles amounted to approximately RMB13,215 million, representing an increase of approximately 6.6% as compared to approximately RMB12,400 million in the first half of 2016, and accounted for approximately 84.6% and 85.0% of the total revenue in the first half of 2017 and 2016 respectively.

Revenue from the after-sales services business was approximately RMB1,817 million, representing a growth of approximately 5.7% as compared to approximately RMB1,719 million in the first half of 2016. The revenue from sales of luxury and ultra-luxury branded automobiles increased by approximately 9.0% to RMB11,767 million from approximately RMB10,797 million in the first half of 2016, accounting for 89.0% and 87.1% of revenue from the sales of new automobiles for the first half of 2017 and 2016 respectively. In the first half of 2017, revenue from the after-sales services business accounted for approximately 11.6% of our total revenue, representing a decrease of approximately 0.2 percentage point in revenue from the after-sales services business.

Cost of sales

For the six months ended 30 June 2017, the Group's cost of sales increased by approximately 4.8%, which was lower than the increase in revenue, to approximately RMB13,894 million as compared to approximately RMB13,252 million in the first half of 2016. In the first half of 2017, the cost of sales for new automobiles increased by approximately 4.8% to approximately RMB12,582 million from approximately RMB12,010 million in the first half of 2016. Cost of the after-sales services business increased by approximately 4.2% to approximately RMB950 million from approximately RMB912 million in the first half of 2016.

Gross profit and gross profit margin

For the six months ended 30 June 2017, the Group's gross profit increased by approximately 29.0% to RMB1,734 million from approximately RMB1,344 million in the first half of 2016, and the Group's gross profit margin grew by approximately 1.9 percentage point to approximately 11.1% from 9.2% in the first half of 2016.

The Group's gross profit was principally generated from after-sales services, sales of new automobiles business and automobile financing services. In the first half of 2017, gross profit of sales of new automobiles increased by approximately 62.6% to approximately RMB634 million from approximately RMB390 million in the first half of 2016; gross profit margin of sales of new automobiles increased to 4.8% as compared to the first half of 2016. Gross profit of sales of luxury and ultra-luxury branded automobiles dramatically boosted by approximately 63.3% as compared to the same period last year to approximately RMB591 million, and gross profit margin of sales of luxury and ultra-luxury branded automobiles increased to 5.0% from 3.4% in the first half of 2016, such boost was mainly due to entering into the new product cycle of dealership brands. In the first half of 2017, gross profit of our after-sales services business was approximately RMB867 million, representing an increase of approximately 7.4% as compared to the same period last year, and gross profit margin of after-sales services business increased by approximately 0.8 percentage point to approximately 47.7% from approximately 46.9% in the first half of 2016. Gross profit and gross profit margin of Dongzheng AFC for the first half of 2017 were RMB205 million and 72.3% respectively.

Selling and distribution expenses

For the six months ended 30 June 2017, the Group's selling and distribution expenses increased by approximately 4.8% to approximately RMB462 million from approximately RMB441 million in the first half of 2016. Such increase was primarily due to increase in leasing charges, wages and depreciation as a result of an increase in number of dealership stores.

Administrative expenses

For the six months ended 30 June 2017, the Group's administrative expenses amounted to approximately RMB393 million, representing a decrease of approximately 19.0% over approximately RMB485 million in the first half of 2016. Such decrease was due to an exchange gain incurred from the appreciation of Renminbi since the beginning of the year during the period under review.

Profit from operations

For the six months ended 30 June 2017, the Group's profit from operations increased by approximately 73.3% to approximately RMB1,099 million from approximately RMB634 million in the first half of 2016, and the operating profit margin was approximately 7.0%, representing an increase of approximately 2.7 percentage points over approximately 4.3% in the first half in 2016.

Income tax expenses

For the six months ended 30 June 2017, the Group's income tax expenses amounted to approximately RMB237 million and the effective tax rate was approximately 31.1% (first half of 2016: 32.2%).

Profit for the period

For the six months ended 30 June 2017, the Group's profit for the period increased by approximately 102.3% to approximately RMB526 million from approximately RMB260 million in the first half of 2016. During the period, profit margin was increased by approximately 1.6 percentage points to approximately 3.4% from approximately 1.8% in the first half of 2016.

Interim dividend

The board of directors of the Company resolved not to declare the payment of an interim dividend for the six months ended 30 June 2017.

Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 30 June 2017, the Group's current assets amounted to approximately RMB16,461 million, representing an increase of approximately RMB1,868 million as compared to the current assets of approximately RMB14,593 million as at 31 December 2016. Such increase was mainly due to abundant bank balances from the Group's new syndicated loans during the period.

As at 30 June 2017, the Group's current liabilities amounted to approximately RMB15,415 million, representing an increase of approximately RMB37 million as compared to the current liabilities of approximately RMB15,378 million as at 31 December 2016, which was basically flat.

Cash flow

As at 30 June 2017, the Group had cash and cash equivalents amounting to approximately RMB3,004 million, representing an increase of approximately RMB1,379 million over approximately RMB1,625 million as at 31 December 2016. The Group's transactions and monetary assets were principally conducted in RMB. The Group's primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and ordinary recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the six months ended 30 June 2017, the Group had net cash inflow of approximately RMB169 million used for its operating activities (six months ended 30 June 2016: net cash outflow of approximately RMB144 million).

Capital expenditure and investment

For the six months ended 30 June 2017, the Group's capital expenditure and investment were approximately RMB623 million.

Inventory

The Group's inventories included vehicles and automobile spare parts. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventory, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group was approximately RMB3,256 million as at 30 June 2017, increased by approximately RMB237 million when compared with RMB3,019 million as at 31 December 2016. Such increase was due to an increase in the appropriation of capital in the inventories of new automobiles by the Group based upon market situation. The Group's average inventory turnover days for the first half of 2017 decreased by 5.9 days to 40.6 days from 46.5 days for the first half of 2016. The following table sets forth our average inventory turnover days for the six-months indicated:

	For the six months ended 30 June (day)	
	2017	**2016**
Average inventory turnover days	**40.6**	46.5

Risks of foreign exchange fluctuation

The Group conducts its business primarily in Renminbi. Certain bank deposits, bank loans and credit enhanced bonds were denominated in foreign currencies. However, the Group's operating cash flow and liquidity has not been subject to significant influence from fluctuations in exchange rate. The Group used cross currency swap to hedge its US-dollar future borrowings. As at 30 June 2017, a financial liability of RMB30.14 million measured at fair value (31 December 2016: a financial asset of RMB143 million) was recognised by the Group on the cross currency swap.

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 30 June 2017, the Group's cash and bank deposits were approximately RMB4,882 million (including: pledged bank deposits and balances with central bank of approximately RMB1,580 million, fixed deposits of RMB298 million and cash and cash equivalents of approximately RMB3,004 million), representing an increase of approximately RMB1,425 million, from approximately RMB3,457 million as at 31 December 2016. As at 30 June 2017, loans and borrowings, obligations under finance leases, and bonds payable of the Group amounted to approximately RMB13,229 million (31 December 2016: RMB11,286 million). Save as loans and borrowings, obligations under finance leases, and bonds payable of approximately RMB6,180 million that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. As at 30 June 2017, net gearing ratio of the Group was approximately 89.8% (31 December 2016: approximately 87.5%). Net gearing ratio was calculated as loans and borrowings, obligations under finance leases, and bonds payable less cash and bank deposits divided by owner's equity. The increase in the ratio was mainly attributable to the growth in the scale of the Group's auto finance business.

Pledged assets of the group

The Group has pledged its group assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 30 June 2017, the pledged assets of the Group amounted to approximately RMB3,230 million (31 December 2016: approximately RMB3,748 million).

Material acquisition and disposal of subsidiaries and associated companies

On 31 March 2017, the Group acquired Yiwu Xinhui Auto Trading Company Limited ("Yiwu Xinhui") and Yongkang Guobang Auto Trading Company Limited as subsidiaries, with an increase of 2 Benz 4S stores, as a result, the Group's Benz dealership business has successfully entered the strategic market in East China.

Investments held in foreign currency and hedging

For the six months ended 30 June 2017, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had a total of 9,343 employees in China (31 December 2016: 9,120 employees). The staff costs incurred for the six months ended 30 June 2017 was approximately RMB394.2 million (for the six months ended 30 June 2016: approximately RMB351.0 million). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provided good working environment and diversified training program. The Company has adopted share option schemes for granting options to eligible employees as incentives or rewards for the contribution to the Group.

FUTURE OUTLOOK AND STRATEGIES

China's automobile market becomes increasingly mature. Due to the steady growth of household disposable income, sales of automobiles and consumption of relevant services, automobile consumption will escalate gradually. Meanwhile, there will be higher requirements for product and service quality. Due to the increasing consumption of luxury automobiles, customers will require more specialized services at various stages of consumption relating to automobiles, and will expect to enjoy one-stop integrated services which are of higher quality and convenience. The Group will take the advantage of its diversified portfolio of luxury brands, mature nationwide networks as well as customized and high value-added services in respect of finance and insurance so as to create excellent customer experience. The Group will also fully exercise its advantage in integrated platform and independent business to cater for customers' changing consumption habits. Efforts will also be made to enrich its services and products and expand its service channels to fully capture opportunities. In addition, the Group will develop traditional sales networks on a more selective basis and will continue to optimize internal management and operation efficiency to create greater value to its shareholders, employees and the community.

OTHER INFORMATION

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

As at 30 June 2017, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

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

Name of Director	Capacity/nature of interest	Number of Shares/ underlying Shares	Approximate percentage of shareholding
Wang Muqing	Settlor of The Grand Glory Trust	1,378,516,820 (Note 1)	62.37%
Wang Kunpeng	Beneficial Owner	1,230,000 (Note 2)	0.056%
Li Zhubo	Beneficial Owner	1,550,000 (Note 3)	0.070%

Notes:

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

2. These represent the maximum number of shares which may be allotted and issued to Mr. Wang Kunpeng upon the exercise of the options under a pre-initial public offering share option scheme ("Pre-IPO Share Options") granted to him. The Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each share upon the exercise of the Pre-IPO Share Options is RMB1.5.

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

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

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

Note:

1. Joy Capital is the direct owner of 1,378,516,820 shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang Muqing and his family members.

Save as disclosed above, as at 30 June 2017, none of the Directors or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the interests or short positions of the substantial shareholders (other than the Directors) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the shares of the Company:

Name of Shareholders	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding
Joy Capital	Beneficial owner (Note 1)	1,378,516,820	62.37%
Grand Glory	Interest of controlled corporation (Note 1)	1,378,516,820	62.37%
Citigroup Inc.	Interest of controlled corporation	69,239,013	
	Custodian corporation/ approved lending agent	45,637,920	
	Person having a security interest in shares	1,358,826	
		116,235,759	5.26%

Note:

1. Joy Capital is the direct owner of 1,378,516,820 shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang Muqing and his family members.

SHARE OPTION SCHEMES

(a) Share Option Scheme

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

Eligible participants of the Share Option Scheme include the following:

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

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of the Company's subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the growth of the Group,

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

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

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

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

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

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

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

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

(b) Pre-IPO Share Option Scheme

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

Details of movements in the Pre-IPO Share Option Scheme during the six months ended 30 June 2017 are as follows:

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

Grantees	Date of grant	Exercise price per share (RMB)	Exercise period	Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2017
Li Zhubo	10/8/2010	1.50	01/01/2012–10/08/2017	205,000	0	0	0	205,000
	10/8/2010	1.50	01/01/2013–10/08/2017	512,500	0	0	0	512,500
	10/8/2010	1.50	01/01/2014–10/08/2017	512,500	0	0	0	512,500
				1,230,000	0	0	0	1,230,000
Sub-total				2,460,000	0	0	0	2,460,000
Employees and former employees	10/8/2010	1.50	01/01/2012–10/08/2017	195,130	0	0	5,200	189,930
	10/8/2010	1.50	01/01/2013–10/08/2017	945,825	0	0	398,000	547,825
	10/8/2010	1.50	01/01/2014–10/08/2017	2,100,825	0	0	398,000	1,702,825
				3,241,780	0	0	801,200	2,440,580
	10/8/2010	2.00	01/04/2012–10/08/2017	66,200	0	0	0	66,200
	10/8/2010	2.00	01/04/2013–10/08/2017	170,500	0	0	0	170,500
	10/8/2010	2.00	01/04/2014–10/08/2017	170,500	0	0	0	170,500
				407,200	0	0	0	407,200
	10/8/2010	2.50	01/07/2012–10/08/2017	0	0	0	0	0
	10/8/2010	2.50	01/07/2013–10/08/2017	0	0	0	0	0
	10/8/2010	2.50	01/07/2014–10/08/2017	0	0	0	0	0
				0	0	0	0	0
	20/8/2010	2.50	01/07/2012–20/08/2017	0	0	0	0	0
	20/8/2010	2.50	01/07/2013–20/08/2017	0	0	0	0	0
	20/8/2010	2.50	01/07/2014–20/08/2017	0	0	0	0	0
				0	0	0	0	0

Grantees	Date of grant	Exercise price per share (RMB)	Exercise period	Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2017
	17/11/2010	2.50	01/07/2012–17/11/2017	26,000	0	0	0	26,000
	17/11/2010	2.50	01/07/2013–17/11/2017	13,000	0	0	0	13,000
	17/11/2010	2.50	01/07/2014–17/11/2017	13,000	0	0	0	13,000
				52,000	0	0	0	52,000
Sub-total				3,700,980	0	0	801,200	2,899,780
Total				6,160,980	0	0	801,200	5,359,780

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

On 12 January 2017, the Company (as borrower) entered into a facility agreement with fifteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$409 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). At 30 June 2017, the loan was amounted to US$539 million. The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. Pursuant to the facility agreement, Mr. Wang Muqing (王木清先生), and his close relatives or any trust of which Mr. Wang and his close relatives are beneficiaries ceasing to own beneficially (whether directly or indirectly) are required to hold no less than 50% of the total issued share capital of the Company. For details, please refer to the announcement of the Company dated 18 January 2017.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code ("Securities Dealing Code") regarding securities transactions of the directors with standards no less exacting than that of the Model Code. In response to a specific enquiry by the Company, all Directors confirmed that they had compiled with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2017.

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

Redemption of Bonds

During the period, at 26 April 2017 the Company redeemed the US$335,000,000 4.5% credit enhanced bonds due 2018 in whole, and the early redemption bond prices (being early redemption bond together with the interest accrued to and unpaid on the redemption date) amounting to US$351,632,628.59.

Subsequent to the completion of the redemption, the bonds were cancelled and the listing of the bonds was withdrawn from the Stock Exchange of Hong Kong Limited.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company had complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2017.

REVIEW OF INTERIM RESULTS

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

The Audit Committee has reviewed the unaudited interim financial statements for six months ended 30 June 2017. KPMG, the Group's external auditor, has carried out a review of the unaudited interim financial statements for the six months ended 30 June 2017 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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

21 August 2017

INDEPENDENT REVIEW REPORT

Review Report to the Board of Directors of
China ZhengTong Auto Services Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 22 to 48 which comprises the consolidated statement of financial position of China ZhengTong Auto Services Holdings Limited (the "Company") as of 30 June 2017, and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance wit{h 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 2017 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
21 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017 – unaudited

(Expressed in RMB'000)

	Note	Six months ended 30 June 2017	2016
Revenue	4	**15,627,910**	14,596,154
Cost of sales		**(13,894,194)**	(13,251,859)
Gross profit		**1,733,716**	1,344,295
Other revenue	5	**269,311**	186,209
Other net (loss)/income	5	**(48,503)**	28,876
Selling and distribution expenses		**(462,219)**	(441,172)
Administrative expenses		**(393,307)**	(484,504)
Profit from operations		**1,098,998**	633,704
Finance costs	6(a)	**(343,823)**	(257,923)
Share of profit of joint venture and associates		**8,290**	8,297
Profit before taxation	6	**763,465**	384,078
Income tax	7	**(237,148)**	(123,726)
Profit for the period		**526,317**	260,352
Attributable to:			
Equity Shareholders of the Company		**515,737**	253,347
Non-controlling interests		**10,580**	7,005
Profit for the period		**526,317**	260,352
Earnings per share	8		
– Basic (RMB cents)		**23.3**	11.5
– Diluted (RMB cents)		**23.3**	11.5

The notes on pages 28 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited
(Expressed in RMB'000)

		Six months ended 30 June	
	Note	2017	2016
Profit for the period		**526,317**	260,352
Other comprehensive income for the period (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
– financial statements of entities outside the Mainland China		**18,888**	(4,603)
Other comprehensive income for the period		**18,888**	(4,603)
Total comprehensive income for the period		**545,205**	255,749
Attributable to:			
Equity Shareholders of the Company		**534,625**	248,744
Non-controlling interests		**10,580**	7,005
Total comprehensive income for the period		**545,205**	255,749

The notes on pages 28 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited

(Expressed in RMB'000)

	Note	At 30 June 2017	At 31 December 2016
Non-current assets			
Property, plant and equipment	10	**4,090,939**	3,912,899
Lease prepayments	11	**1,256,703**	1,108,570
Receivables from financial services	12	**1,688,517**	1,931,884
Intangible assets		**3,718,887**	3,691,704
Goodwill		**1,998,733**	1,926,551
Interest in a joint venture		**254,021**	244,114
Interest in associates		**17,359**	21,803
Deferred tax assets	19	**166,698**	154,912
Other financial assets		**–**	143,456
		13,191,857	13,135,893
Current assets			
Inventories	13	**3,255,979**	3,018,856
Trade and other receivables	14	**6,345,301**	6,384,103
Receivables from financial services	12	**1,978,017**	1,732,996
Pledged bank deposits and balances with central bank	15	**1,579,904**	1,831,934
Time deposits		**298,000**	–
Cash and cash equivalents	16	**3,004,258**	1,625,128
		16,461,459	14,593,017
Current liabilities			
Loans and borrowings for financial services	17	**2,900,000**	3,252,885
Loans and borrowings for non-financial services	17	**6,026,188**	5,392,584
Obligations under finance leases		**269,226**	101,720
Trade and other payables	18	**4,997,524**	5,501,303
Income tax payables		**1,222,496**	1,129,926
		15,415,434	15,378,418
Net current assets/(liabilities)		**1,046,025**	(785,401)
Total assets less current liabilities		**14,237,882**	12,350,492

The notes on pages 28 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited
(Expressed in RMB'000)

	Note	At 30 June 2017	At 31 December 2016
Non-current liabilities			
Loans and borrowings for non-financial services	17	**3,735,986**	224,000
Bonds payable		**297,130**	2,314,703
Other financial liability		**30,136**	–
Deferred tax liabilities	19	**880,474**	869,628
		4,943,726	3,408,331
NET ASSETS		**9,294,156**	8,942,161
Capital and reserves	20		
Share capital		**188,788**	188,788
Reserves		**9,010,958**	8,669,543
Total equity attributable to equity shareholders of the Company		**9,199,746**	8,858,331
Non-controlling interests		**94,410**	83,830
TOTAL EQUITY		**9,294,156**	8,942,161

Approved and authorised for issue by the board of directors on 21 August 2017.

Koh Tee Choong
Director, CEO

Li Zhubo
Director, CFO

The notes on pages 28 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – unaudited

(Expressed in RMB'000)

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reserves	PRC statutory reserves	Exchange reserves	Discretionary surplus reserves	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2016	188,788	4,549,233	319,553	363,806	(6,952)	4,459	5,340	3,164,405	8,588,632	100,706	8,689,338
Changes in equity for the six months ended 30 June 2016:											
Profit for the period	–	–	–	–	–	–	–	253,347	253,347	7,005	260,352
Other comprehensive income	–	–	–	–	(4,603)	–	–	–	(4,603)	–	(4,603)
Total comprehensive income for the period	–	–	–	–	(4,603)	–	–	253,347	248,744	7,005	255,749
Acquisition of non-controlling interest in subsidiaries	–	–	(20,913)	–	–	–	–	–	(20,913)	(18,085)	(38,998)
Dividends (note 20(a))	–	–	–	–	–	–	–	(187,209)	(187,209)	(11,144)	(198,353)
Balance at 30 June 2016 and 1 July 2016	188,788	4,549,233	298,640	363,806	(11,555)	4,459	5,340	3,230,543	8,629,254	78,482	8,707,736
Changes in equity for the six months ended 31 December 2016:											
Profit for the period	–	–	–	–	–	–	–	239,935	239,935	8,072	248,007
Other comprehensive income	–	–	–	–	(10,858)	–	–	–	(10,858)	–	(10,858)
Total comprehensive income for the period	–	–	–	–	(10,858)	–	–	239,935	229,077	8,072	237,149
Transfer of profits to general reserve	–	–	–	–	–	–	17,824	(17,824)	–	–	–
Dividends	–	–	–	–	–	–	–	–	–	(2,724)	(2,724)
Appropriation to reserves	–	–	–	60,569	–	–	–	(60,569)	–	–	–
Balance at 31 December 2016	188,788	4,549,233	298,640	424,375	(22,413)	4,459	23,164	3,392,085	8,858,331	83,830	8,942,161

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reserves	PRC statutory reserves	Exchange reserves	Discretionary surplus reserves	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2017	188,788	4,549,233	298,640	424,375	(22,413)	4,459	23,164	3,392,085	8,858,331	83,830	8,942,161
Changes in equity for the six months ended 30 June 2017:											
Profit for the period	–	–	–	–	–	–	–	515,737	515,737	10,580	526,317
Other comprehensive income	–	–	–	–	18,888	–	–	–	18,888	–	18,888
Total comprehensive income for the period	–	–	–	–	18,888	–	–	515,737	534,625	10,580	545,205
Dividends (note 20(a))	–	–	–	–	–	–	–	(193,210)	(193,210)	–	(193,210)
Balance at 30 June 2017	188,788	4,549,233	298,640	424,375	(3,525)	4,459	23,164	3,714,612	9,199,746	94,410	9,294,156

The notes on pages 28 to 48 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 – unaudited
(Expressed in RMB'000)

	Note	Six months ended 30 June 2017	2016
Operating activities			
Cash generated from/(used in) operations		321,775	(24,609)
Tax paid		(152,349)	(119,125)
Net cash generated from/(used in) operating activities		169,426	(143,734)
Investing activities			
Payment for the purchase of property, plant and equipment		(406,371)	(398,842)
Payment for purchase of intangible assets		(503)	(1,162)
Payment for lease prepayment	11	(160,152)	–
Net cash used in acquisition of subsidiaries		(60,833)	–
Other cash (used in)/generated from investing activities		(168,131)	98,743
Net cash used in investing activities		(795,990)	(301,261)
Financing activities			
Dividends paid to non-controlling interests		–	(11,144)
Dividend paid to equity shareholders of the Company		(193,210)	(187,209)
Proceeds from loans and borrowings		12,804,766	4,727,616
Repayment of loans and borrowings		(8,201,397)	(4,203,353)
Payment for redemption of bonds		(2,305,906)	–
Interest paid		(364,417)	(273,918)
Other cash generated from/(used in) financing activities		277,786	(138,998)
Net cash generated from/(used in) financing activities		2,017,622	(87,006)
Net decrease in cash and cash equivalents		1,391,058	(532,001)
Cash and cash equivalents at 1 January		1,625,128	1,599,117
Effect of foreign exchange rate changes		(11,928)	3,142
Cash and cash equivalents at 30 June	16	3,004,258	1,070,258

The notes on pages 28 to 48 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION

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

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

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorised for issue on 21 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report is unaudited, but has been reviewed by the Company's auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA. KPMG's independent review report to the board of directors is included on page 21.

The financial information relating to the financial year ended 31 December 2016 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. Further information relating to these statutory financial statements for the year ended 31 December 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those statutory financial statements in their report dated 21 March 2017.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the group. None of these developments has 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.

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

4 REVENUE

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

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

	Six months ended 30 June	
	2017	**2016**
	RMB'000	**RMB'000**
Sales of passenger motor vehicles	**13,215,237**	12,400,453
Sales of motor spare parts	**290,865**	348,847
Provision of maintenance services	**1,526,570**	1,370,267
Provision of logistics services	**249,408**	188,674
Sales of lubricant oil	**102,536**	111,211
Interest and service income from financial services	**243,294**	176,702
	15,627,910	14,596,154

5 OTHER REVENUE AND NET (LOSS)/INCOME

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Other revenue:		
Service income	256,588	171,688
Interest income from bank deposits	12,391	13,678
Others	332	843
	269,311	186,209
Other net (loss)/income:		
Net gain on disposal of property, plant and equipment	14,791	11,509
Net (loss)/gain on derivative financial instruments	(73,998)	9,521
Others	10,704	7,846
	(48,503)	28,876

6 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
	Note	2017 RMB'000	2016 RMB'000
(a) Finance costs:			
Interest on loans and borrowings and bonds payable		343,827	247,287
Other finance costs	(i)	20,590	26,631
Less: interest capitalised		(20,594)	(15,995)
		343,823	257,923
(b) Staff costs:			
Salaries, wages and other benefits		367,493	327,218
Contributions to defined contribution retirement plans	(ii)	26,724	23,732
		394,217	350,950

(i) It mainly represents the interest expenses arising from discount of bills.

(ii) Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees.

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

6 PROFIT BEFORE TAXATION (CONTINUED)

		Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
(c)	**Other items:**		
	Cost of inventories	**13,643,106**	13,011,828
	Cost of interests*	**47,435**	65,842
	Depreciation	**141,164**	143,334
	Amortisation of lease prepayments	**12,018**	11,398
	Amortisation of intangible assets	**50,949**	50,747
	Operating lease charges	**175,215**	154,894
	Net foreign exchange (gain)/loss	**(56,081)**	48,175

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

7 INCOME TAX

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Current tax:		
Provision for PRC income tax for the period	**257,671**	147,466
Deferred tax:		
Origination of temporary differences (note 19)	**(20,523)**	(23,740)
	237,148	123,726

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

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

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

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

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit attributable to shareholders of the Company for the six months of RMB515,737,000 (30 June 2016: RMB253,347,000) and the weighted average number of ordinary shares of 2,210,200,440 (30 June 2016: 2,210,200,440) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2017 is based on the profit attributable to ordinary equity shareholders of the Company of RMB515,737,000 (30 June 2016: RMB253,347,000) and the weighted average number of ordinary shares of 2,213,262,950 (30 June 2016: 2,212,507,194) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme.

Weighted average number of shares (diluted)

	Six months ended 30 June	
	2017 Number of shares	**2016 Number of shares**
Weighted average number of ordinary shares	**2,210,200,440**	2,210,200,440
Effect of deemed issue of shares under the pre-IPO employee share option scheme	**3,062,510**	2,306,754
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,213,262,950**	2,212,507,194

9 SEGMENT REPORTING

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

1 4S dealership business

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

2 Supply chain business

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

3 Financial services business

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

9 SEGMENT REPORTING (CONTINUED)

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

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

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

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

- Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.

- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

9 SEGMENT REPORTING (CONTINUED)

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

	4S dealership business		Supply chain business		Financial services business		Total	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue from external customers	15,032,672	14,116,028	351,944	299,885	243,294	180,241	15,627,910	14,596,154
Inter-segment revenue	–	–	–	–	19,753	11,051	19,753	11,051
Reportable segment revenue	15,032,672	14,116,028	351,944	299,885	263,047	191,292	15,647,663	14,607,205
Reportable segment profit	655,075	371,445	17,624	24,169	184,408	99,101	857,107	494,715
Depreciation and amortisation for the period	182,393	187,549	10,448	13,011	11,290	4,919	204,131	205,479
Reportable segment assets as at 30 June 2017/ 31 December 2016	15,660,458	16,175,278	265,496	234,729	4,755,622	4,413,169	20,681,576	20,823,176
Additions to non-current segment assets during the period	623,948	287,062	10,481	2,452	67,071	111,528	701,500	401,042
Reportable segment liabilities as at 30 June 2017/ 31 December 2016	(13,003,097)	(12,523,755)	(165,629)	(144,001)	(3,205,682)	(3,531,114)	(16,374,408)	(16,198,870)
Investment in a joint venture and associates as at 30 June 2017/ 31 December 2016	–	–	254,021	247,314	17,359	18,603	271,380	265,917

9 SEGMENT REPORTING (CONTINUED)

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Reportable segment profit	**857,107**	494,715
Elimination of inter-segment profits	**(17,006)**	(8,342)
Unallocated head office gain/(expenses)	**46,379**	(59,457)
Other revenue	**269,311**	186,209
Other net (loss)/income	**(48,503)**	28,876
Finance costs	**(343,823)**	(257,923)
Consolidated profit before taxation	**763,465**	384,078

(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 2017 RMB'000	At 31 December 2016 RMB'000
Assets:		
Reportable segment assets	**20,681,576**	20,823,176
Intangible assets	**3,718,887**	3,691,704
Goodwill	**1,998,733**	1,926,551
Deferred tax assets	**166,698**	154,912
Unallocated head office assets	**3,755,389**	2,356,499
Elimination of inter-segment receivables	**(667,967)**	(1,223,932)
Consolidated total assets	**29,653,316**	27,728,910
Liabilities:		
Reportable segment liabilities	**(16,374,408)**	(16,198,870)
Income tax payables	**(1,222,496)**	(1,129,926)
Deferred tax liabilities	**(880,474)**	(869,628)
Unallocated head office liabilities	**(2,549,749)**	(1,812,257)
Elimination of inter-segment payables	**667,967**	1,223,932
Consolidated total liabilities	**(20,359,160)**	(18,786,749)

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment with original costs of RMB463,217,000 in aggregate (six months ended 30 June 2016: RMB399,879,000). Items of property, plant and equipment with a net book value of RMB144,013,000 were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB93,557,000), resulting in net gain on disposal of RMB14,791,000 (six months ended 30 June 2016: RMB11,509,000).

11 LEASE PREPAYMENTS

Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 23 to 50 years when granted.

During the six months ended 30 June 2017, the Group acquired such land use rights with original costs of RMB160,152,000 in aggregate (six months ended 30 June 2016: RMB0).

12 RECEIVABLES FROM FINANCIAL SERVICES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Current		
Receivable from retail customers	**1,820,844**	1,618,481
Receivable from auto dealers	**176,541**	143,046
Less: allowance for doubtful debts	**(19,368)**	(28,531)
	1,978,017	1,732,996
Non-Current		
Receivable from retail customers	**1,692,446**	1,939,492
Less: allowance for doubtful debts	**(3,929)**	(7,608)
	1,688,517	1,931,884
Net receivables from financial services	**3,666,534**	3,664,880

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

Receivables from financial services with carrying amount of RMB0 are pledged against bank loans as at 30 June 2017 (2016: RMB249,504,707).

12 RECEIVABLES FROM FINANCIAL SERVICES (CONTINUED)

(a) Ageing analysis

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	**779,909**	1,036,040
More than 3 months but within 1 year	**1,662,793**	1,910,937
More than 1 year but within 2 years	**1,154,553**	717,903
More than 2 year but within 3 years	**69,279**	–
	3,666,534	3,664,880

(b) Impairment of receivables from financial services

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
At 1 January	**36,139**	11,819
Impairment loss recognised	**266**	30,728
Uncollectible amounts written off	**(13,108)**	(6,408)
At period end	**23,297**	36,139

At 30 June 2017, receivables from financial services of RMB14,106,883 (2016: RMB13,894,342) were past due and individually determined to be impaired. Consequently, specific allowance for doubtful debts of RMB12,298,455 (2016: RMB12,460,081) were recognised.

(c) Receivables from financial services that are not impaired

As at 30 June 2017, there are no receivables from financial services that are past due but not impaired.

13 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Motor vehicles	**3,004,626**	2,765,645
Motor spare parts	**222,785**	229,487
Others	**28,568**	23,724
	3,255,979	3,018,856

14 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	**672,148**	676,669
Over 3 months but within 1 year	**15,167**	26,404
Over 1 year	**9,718**	10,755
Less: allowance for doubtful debts	**–**	–
Trade debtors and bills receivable	**697,033**	713,828
Prepayments	**697,396**	1,054,354
Other receivables and deposits	**4,950,872**	4,615,921
Less: allowance for doubtful debts	**–**	–
Trade and other receivables	**6,345,301**	6,384,103

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

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

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

Reportable segments	**Credit terms in general**
4S dealership business	Cash on delivery to 180 days
Supply chain business	30 to 90 days

15 PLEDGED BANK DEPOSITS AND BALANCES WITH CENTRAL BANK

Guarantee deposits in respect of:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Restricted guarantee deposits in respect of:		
Bank loans	**251,018**	277,804
Bills payable	**1,324,579**	1,298,850
Standby letter of credit	**–**	251,000
	1,575,597	1,827,654
Restricted balances with central bank:		
Statutory deposit reserve funds	**4,307**	4,280
	1,579,904	1,831,934

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

(ii) Balances with central bank is the statutory deposit reserve placed by the financial services company with the People's Bank of China, calculated at 7.0% (2016: 7.0%) of RMB deposits received.

16 CASH AND CASH EQUIVALENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Deposit with banks within 3 months of maturity	**5,700**	13,400
Cash at banks and on hand	**2,998,558**	1,611,728
Cash and cash equivalents in the consolidated statements of financial position	**3,004,258**	1,625,128
Cash and cash equivalents in the cash flow statements	**3,004,258**	1,625,128

17 LOANS AND BORROWINGS

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Current		
Loans and borrowings for financial services		
Unsecured bank loans	2,900,000	3,064,885
Secured long-term bank loans repayable within 1 year	–	68,000
Unsecured long-term bank loans repayable within 1 year	–	120,000
	2,900,000	3,252,885
Loans and borrowings for non-financial services		
Unsecured bank loans	4,164,129	3,927,766
Unsecured long-term bank loans repayable within 1 year	84,000	56,000
Unsecured short-term commercial paper	400,000	700,000
Unsecured borrowings from other financial institutions	13,156	–
	4,661,285	4,683,766
Secured bank loans	867,292	417,529
Secured borrowings from other financial institutions	497,611	291,289
	6,026,188	5,392,584
Sub-total	8,926,188	8,645,469
Non-current		
Loans and borrowings for non-financial services		
Unsecured bank loans	3,735,986	224,000
Sub-total	3,735,986	224,000
Total	12,662,174	8,869,469

18 TRADE AND OTHER PAYABLES

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	**3,339,126**	3,831,245
Over 3 months but within 6 months	**28,747**	271,299
Over 6 months but within 12 months	**1,727**	1,957
Total creditors and bills payable	**3,369,600**	4,104,501
Receipts in advance	**498,478**	503,332
Other payables and accruals	**1,119,896**	887,826
Payables due to third parties	**4,987,974**	5,495,659
Payables due to related parties (note 24(b))	**9,550**	5,644
Trade and other payables	**4,997,524**	5,501,303

19 DEFERRED TAX ASSETS AND LIABILITIES

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

	Fair value adjustment arising from business combination RMB'000	Depreciation allowances in excess of depreciation charges RMB'000	Future benefits of tax losses RMB'000	Deferred revenue RMB'000	Capitalisation of interest RMB'000	Total RMB'000
Deferred tax assets/ (liabilities) arising from:						
At 1 January 2016	(855,717)	(6,705)	110,430	4,121	(27,101)	(774,972)
Credited/(charged) to profit or loss (note 7)	12,345	148	15,083	(1,092)	(2,744)	23,740
At 30 June 2016	(843,372)	(6,557)	125,513	3,029	(29,845)	(751,232)
At 1 January 2017	(831,074)	(6,444)	150,543	4,869	(32,610)	(714,716)
Acquisition of a subsidiary through business combination	(19,583)	–	–	–	–	(19,583)
Credited/(charged) to profit or loss (note 7)	12,472	232	12,668	(362)	(4,487)	20,523
At 30 June 2017	(838,185)	(6,212)	163,211	4,507	(37,097)	(713,776)

19 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Representing:		
Deferred tax assets	**166,698**	154,912
Deferred tax liabilities	**(880,474)**	(869,628)
	(713,776)	(714,716)

20 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Final dividend proposed in respect of the previous financial year, approved and paid during the following interim period, of HK$0.10 per ordinary share (six months ended 30 June 2016: HK$0.10 per ordinary share)	**193,210**	187,209

(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 2017		At 31 December 2016	
	Number of shares (thousand)	Amount HK$('000)	Number of shares (thousand)	Amount HK$('000)
Ordinary shares, authorised:				
Ordinary shares of HK$0.10 each	**20,000,000**	**2,000,000**	20,000,000	2,000,000
Ordinary shares, issued and fully paid:				
At 1 January	**2,210,200**	**221,020**	2,210,200	221,020
Shares issued pursuant to pre-IPO employee share option scheme	**–**	**–**	–	–
At 30 June/31 December	**2,210,200**	**221,020**	2,210,200	221,020
RMB equivalent ('000)		**188,788**		188,788

21 BUSINESS COMBINATION

On 31 March 2017, the Group acquired 100% equity interest in Yiwu Xinhui Auto Trading Company Limited ("Yiwu Xinhui") and Yongkang Guobang Auto Trading Company Limited ("Yongkang Guobang") from independent third parties at a total consideration of RMB235,000,000. Yiwu Xinhui and Yongkang Guobang are principally engaged in the business of automobile dealership and after-sales services. Their major assets consist of Benz 4S dealership stores located in Yiwu and Yongkang, Zhejiang province, the PRC, respectively.

The above acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amounts RMB'000	Fair value adjustments RMB'000	Recognised values on acquisition RMB'000
Property, plant and equipment	29,869	–	29,869
Car dealership	–	78,333	78,333
Inventories	64,373	–	64,373
Trade and other receivables	277,403	–	277,403
Cash and cash equivalents	2,667	–	2,667
Trade and other payables	(143,292)	–	(143,292)
Loans and borrowings	(127,828)	–	(127,828)
Deferred tax assets/(liabilities)	876	(19,583)	(18,707)
Net identified assets and liabilities	104,068	58,750	162,818
Percentage attributable to the Group			100%
Net identified assets and liabilities attributable to the Group			162,818
Goodwill on acquisition of 100% equity interest			72,182
Total consideration			235,000
Analysis of the net cash outflow in respect of the acquisition:			
Cash consideration paid			63,500
Less: cash acquired			(2,667)
Net cash outflow in acquisition			60,833

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

21 BUSINESS COMBINATION (CONTINUED)

The revenue and profit that Yiwu Xinhui and Yongkang Guobang contributed to the Group during the period ended 30 June 2017 are RMB227,293,000 and RMB11,563,000 respectively. If the acquisition had occurred on 1 January 2017, management estimates that the Group's consolidated revenue and consolidated profit for the period ended 30 June 2017 would have been RMB15,822,269,000 and RMB535,649,000 respectively. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the above acquisition would have been the same if the acquisition had occurred on 1 January 2017.

22 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding at 30 June 2017 not provided for in the condensed consolidated financial statements were as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for	**430,098**	283,354

(b) Operating lease commitments

At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**330,088**	291,155
After 1 year but within 5 years	**665,997**	706,829
After 5 years	**446,685**	495,464
	1,442,770	1,493,448

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

23 CONTINGENT LIABILITIES

As of 30 June 2017, the Group did not have any significant contingent liabilities.

24 MATERIAL RELATED PARTY TRANSACTIONS

During the period ended 30 June 2017, the directors are of the view that the following individual/companies are related parties of the Group:

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

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.

24 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Recurring transactions

	Six months ended 30 June	
	2017	**2016**
	RMB'000	**RMB'000**
Rental expense:		
Hubei Shengze	**2,797**	2,797
Beijing Baoze Technology	**16,087**	16,087
Inner Mongolia Shengze Dingjie	**11,562**	11,562
Changsha Shengze Ruibao	**1,244**	1,244
Wuhan Jieyun	**7,087**	7,087
Wuhan Jiezhong	**1,272**	1,272
Wuhan Investment	**8,173**	8,173
	48,222	48,222

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

(b) Balances with related parties

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

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Due to related parties:			
Beijing Baoze Technology		**–**	1,016
Inner Mongolia Shengze Dingjie		**9,550**	4,628
	18	**9,550**	5,644

25 ULTIMATE HOLDING COMPANY

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

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

At the state, the Group is not able to estimate the impact of HKFRS 9 on the Group's financial statements. The Group will make more detailed assessments of the impact over the next six months.

HKFRS 9 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements.

At the state, the Group is not able to estimate the impact of HKFRS 15 on the Group's financial statements. The Group will make more detailed assessments of the impact over the next six months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

HKFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. At 30 June 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB1,411,195,000 for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Group has decided not to early adopt HKFRS 16 in its 2018 consolidated financial statements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng *(Vice Chairman)*
Mr. Koh Tee Choong, Ivan *(Chief Executive Officer)*
Mr. Li Zhubo
Mr. Wan To
Mr. Shao Yong Jun

Independent Non-executive Directors

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

REGISTERED OFFICE

Cricket Square
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HEADQUARTERS

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Beijing
PRC

PLACE OF BUSINESS IN HONG KONG

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The Center
99 Queen's Road Central
Hong Kong

WEBSITE ADDRESS

www.zhengtongauto.com

COMPANY SECRETARY

Ms. Yeung Wing Yee

AUTHORIZED REPRESENTATIVES

Mr. Shao Yong Jun
Mr. Li Zhubo

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Dr. Cao Tong *(Chairman)*
Mr. Wang Muqing
Dr. Wong Tin Yau, Kelvin

HONG KONG SHARE REGISTRAR

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46th Floor
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183 Queen's Road East
Wan Chai
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

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

PRINCIPAL BANKERS

China Construction Bank Corporation, Hubei Branch
Industrial and Commercial Bank of China, Wuhan Branch
Bank of China, Hubei Branch
Industrial Bank Co., Ltd., Wuhan Branch
China Merchants Bank, Wuhan Branch
China Minsheng Banking Corp., Ltd.,Communications Finance Business Department
China Guangfa Bank, Shanghai Branch
Shanghai Pudong Development Bank Co., Ltd.
DBS Bank (China) Limited
Standard Chartered Bank (China) Limited

AUDITORS

KPMG
Certified Public Accountants

HONG KONG LEGAL COUNSEL

Chiu & Partners, Solicitors

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

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