China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

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

(Stock Code: 1728)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors (the "**Directors**") of China ZhengTong Auto Services Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 together with the comparative figures for the corresponding period in 2022 as set out below.

HIGHLIGHTS

For the six months ended 30 June 2023:

- revenue increased by approximately 11.2% to approximately RMB12,310 million, mainly due to an increase in sales of new automobiles;
- overall gross profit decreased by approximately 33.6% to approximately RMB630 million, and gross profit margin decreased by 3.5 percentage points to 5.1%, mainly due to a decrease in the average selling price of new automobiles;
- loss attributable to equity shareholders of the Company was approximately RMB394 million, as compared to a profit attributable to equity shareholders of the Company of approximately RMB8 million for the same period in 2022, mainly due to the decrease in gross profit margin from sales of new automobiles;
- basic loss per share was approximately RMB14.4 cents as compared to a basic earnings per share of RMB0.3 cents for the same period in 2022;
- sales volume of new automobiles increased by approximately 17.1% to 30,560 units (including 26,187 units of luxury and ultra-luxury branded automobiles, representing a period-on-period increase of approximately 22.1%).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2023 — unaudited
(Expressed in RMB'000)

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the six months ended 30 June 2023 — unaudited
(Expressed in RMB'000)

	Six months ended 30 June	
	2023	2022
(Loss)/profit for the period	**(386,064)**	5,675
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of:		
— financial statements of entities outside of Mainland China	**(7,825)**	(10,245)
Other comprehensive income for the period	**(7,825)**	(10,245)
Total comprehensive income for the period	**(393,889)**	(4,570)
Attributable to:		
Equity shareholders of the Company	**(401,362)**	(2,095)
Non-controlling interests	**7,473**	(2,475)
Total comprehensive income for the period	**(393,889)**	(4,570)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2023 — unaudited
(Expressed in RMB'000)

	Note	**At 30 June 2023**	At 31 December 2022
Non-current assets			
Property, plant and equipment		**5,779,444**	5,766,306
Investment properties		**385,805**	303,593
Right-of-use assets		**2,504,024**	2,606,585
Intangible assets	*9*	**2,624,077**	2,705,072
Goodwill		**566,736**	566,736
Interest in an associate		**15,217**	15,341
Deferred tax assets		**684,008**	673,051
Long-term receivables		**356,056**	321,037
Other financial assets	*10*	**944,947**	944,947
		13,860,314	13,902,668
Current assets			
Inventories	*11*	**3,580,553**	4,064,270
Trade and bills receivables	*12*	**900,989**	907,442
Prepayments, deposits and other receivables	*13*	**4,265,095**	4,063,517
Other financial assets	*10*	**263,048**	103,561
Pledged bank deposits		**4,884,674**	3,957,215
Time deposits		**10,398**	—
Cash and cash equivalents		**704,939**	734,086
		14,609,696	13,830,091
Current liabilities			
Loans and borrowings		**15,174,349**	12,234,030
Lease liabilities		**478,927**	363,493
Trade and other payables	*14*	**4,300,082**	5,827,775
Income tax payables		**379,669**	394,662
Other financial liabilities	*10*	**5,977**	91,516
		20,339,004	18,911,476
Net current liabilities		**(5,729,308)**	(5,081,385)
Total assets less current liabilities		**8,131,006**	8,821,283

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2023 — unaudited (continued)

(Expressed in RMB'000)

	Note	**At 30 June 2023**	At 31 December 2022
Non-current liabilities			
Loans and borrowings		**4,922,331**	6,439,857
Lease liabilities		**872,042**	981,073
Deferred tax liabilities		**991,995**	989,261
Trade and other payables	*14*	**168,364**	186,648
		6,954,732	8,596,839
NET ASSETS		**1,176,274**	224,444
CAPITAL AND RESERVES			
Share capital		**246,394**	235,203
Perpetual bonds	*17*	**899,951**	—
Reserves		**(402,437)**	(41,814)
Total equity attributable to equity shareholders of the Company		**743,908**	193,389
Non-controlling interests	*17*	**432,366**	31,055
TOTAL EQUITY		**1,176,274**	224,444

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). It was authorised for issue on 29 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for application of certain accounting policy which became relevant to the Group and accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of these newly applied and changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA.

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

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

3 NEWLY APPLIED AND CHANGES IN ACCOUNTING POLICIES

(a) Accounting policy newly applied by the Group

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

Perpetual bonds

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

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

(b) New and amended HKFRSs

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

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

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

HKFRS 17, Insurance contracts

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

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

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

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

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

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

4 REVENUE

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

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

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

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

5 OTHER INCOME

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

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

6 (LOSS)/PROFIT BEFORE TAXATION

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

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

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

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

(iii) Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees. The Group remits all pension fund contributions to the respective tax bureau, which are responsible for the payment and liabilities relating to the pension funds.

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

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

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

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

7 INCOME TAX

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

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

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

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

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

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

8 (LOSS)/EARNINGS PER SHARE

(a) Basic loss per share

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

(b) Diluted loss per share

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

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

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

9 INTANGIBLE ASSETS

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

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

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

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

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

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

10 OTHER FINANCIAL ASSETS/(LIABILITIES)

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

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

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

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

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

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

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

At the Valuation Date, the reference rate, which represents the spot rate as specified within the respective contracts, shall be compared against the strike rates (upper and lower)/barrier rate as specified within the respective contracts, and the Group may receive from/pay to the banks an amount as specified in the contracts if certain conditions specified within the respective contracts are met.

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

(iv) Equity investment in Dongfeng Logistics

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

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

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

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

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

11 INVENTORIES

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

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

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

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

12 TRADE AND BILLS RECEIVABLES

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

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

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

Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

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

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

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

14 TRADE AND OTHER PAYABLES

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

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

15 FINANCIAL GUARANTEES ISSUED

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

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

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

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

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

Pursuant to the First Instance Judgement, Beijing Guangze shall:

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

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

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

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

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

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

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

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

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

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

16 DIVIDENDS

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

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

17 PERPETUAL BONDS

Perpetual Bond 1

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

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

Perpetual Bond 2

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

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

Perpetual Bond 3

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

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

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

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

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

18 CONTINGENT LIABILITIES

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

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

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

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

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

19 COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

(I) Automobile dealership segment

1. Sales of new automobiles

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

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

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

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

2. After-sales services business

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

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

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

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

3. Pre-owned automobile business

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

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

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

4. *Auto finance business*

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

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

DEVELOPMENT AND LAYOUT OF COMPANY NETWORK

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

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

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

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

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

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

(II) Supply chain business segment

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

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

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

(III) Management improvement

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

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

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

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

Company also established a comprehensive supervision system for business, finance, risk control and auditing to ensure the orderly advancement of the Company's system for punishing and preventing corruption.

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

Cost of sales

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

Gross profit and gross profit margin

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

Selling and distribution expenses

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

Administrative expenses

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

Profit from operations

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

Income tax

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

Contingent liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities other than as disclosed in "Note 18 Contingent liabilities" to the unaudited interim financial information above.

(Loss)/profit for the period

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

Current assets and current liabilities

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

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

Cash flow

As at 30 June 2023, the Group had cash and cash equivalents amounting to approximately RMB705 million, representing a decrease of approximately RMB29 million from approximately RMB734 million as at 31 December 2022. The Group's transactions and monetary assets were principally denominated in Renminbi. The Group's primary uses of funds were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to finance the Group's working capital and daily operating expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the six months ended 30 June 2023, the Group had net cash outflow of approximately RMB446 million generated from its operating activities (for the six months ended 30 June 2022: net cash inflow of approximately RMB171 million), which was primarily due to the decrease in gross profit from sales of new automobiles.

Capital expenditure and investment

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

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventories, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group amounted to approximately RMB3,581 million as at 30 June 2023, representing a decrease of approximately RMB483 million when compared with approximately RMB4,064 million as at 31 December 2022. Such change was mainly due to the reduction in the closing inventory of new automobiles of the Group. The Group's average inventory turnover days in the first half of 2023 was 49.4 days, representing an increase of 8.6 days as compared to 40.8 days in the first half of 2022. The following table sets forth our average inventory turnover days (excluding the impact of properties under development for sale) for the period indicated:

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

Foreign exchange risk

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

Liquidity and capital resources

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

Pledged assets

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

Investments held in foreign currency and hedging

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

Employees and remuneration policies

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

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

FUTURE OUTLOOK AND STRATEGIES

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

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

INTERIM DIVIDEND

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

REVIEW OF INTERIM RESULTS

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

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for six months ended 30 June 2023. KPMG, the Group's external auditor, has carried out a review of the unaudited interim financial statements for the six months ended 30 June 2023 in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the HKICPA.

EVENTS AFTER REPORTING PERIOD

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

USE OF PROCEEDS

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

The net proceeds from the placing were approximately HK$56.34 million (after deducting related costs and expenses). The Company intends to use the net proceeds for repaying bank loans. All the conditions of the placing were fulfilled and the completion of the placing took place on 15 June 2023.

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

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

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

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

CORPORATE GOVERNANCE

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Group also acknowledges the vital importance of good corporate governance to the success and sustainability of the Group.

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a set of securities dealing code (the "**Securities Dealing Code**") regarding securities transactions of the Directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**"). In response to a specific enquiry by the Company, each of the existing Directors confirmed that they had complied with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2023.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the interim report for the six months ended 30 June 2023 of the Company containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

APPRECIATION

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

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

29 August 2023

As at the date of this announcement, the Board comprises Mr. WANG Mingcheng (Chairman), Mr. LI Zhihuang and Mr. HUANG Junfeng as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.