



MEIDONG
AUTO

China MeiDong Auto Holdings Limited

中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1268

SPEED UP

BUSINESS EXPANSION



INTERIM REPORT 2016

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ye Fan (*Chairman*)

Ye Tao (*Chief Executive Officer*)

Liu Xuehua

Independent Non-Executive Directors

Pan Lu

Wang, Michael Chou

Jip Ki Chi

AUTHORISED REPRESENTATIVES

Ye Tao

COMPANY SECRETARY

Wong Cheung Ki Johnny

AUDIT COMMITTEE

Jip Ki Chi (*Chairman*)

Wang, Michael Chou

Pan Lu

REMUNERATION COMMITTEE

Pan Lu (*Chairman*)

Ye Tao

Jip Ki Chi

NOMINATION COMMITTEE

Ye Tao (*Chairman*)

Pan Lu

Jip Ki Chi

REGISTERED OFFICE

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

13th Floor, Unit A1

Tian An Tech Industry Building

Huangjin Road

Nancheng District, Dongguan

Guangdong, PRC

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2404
24th Floor, World-Wide House
19 Des Voeux Road, Central
Hong Kong

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation
Limited
Industrial Bank Co. Ltd.

STOCK CODE

1268

COMPANY'S WEBSITE

www.meidongauto.com

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2016 (the "Period"), China Meidong Auto Holdings Limited (the "Company") and its subsidiaries (the "Group") had a total revenue was RMB2,598,288,000, representing an increase of 22.0% compared with RMB2,129,973,000 during the corresponding period of 2015. This included new vehicles sales of RMB2,292,096,000, which grew approximately 21.1% compared to the same period of last year; and after sales revenue of RMB306,192,000, which grew about 29.1% compared to the same period in 2015.

Gross Profit

For the six months ended 30 June 2016, the Group reported a gross profit of RMB253,059,000, a 20.8% increase compared with RMB209,428,000 during the corresponding period in 2015. This included profit of new car sales reaching RMB95,262,000, an approximately 3.7% increase compared to the same period in 2015; after sales gross profit of RMB157,797,000, an approximately 34.2% increase compared to the same period of 2015.

Distribution Costs and Administrative Expenses

Distribution costs for the six months ended 30 June 2016 amounted to RMB92,651,000, which grew approximately 45.0% compared to the same period of 2015. Administrative expenses for the six months ended 30 June 2016 amounted to RMB78,481,000, which grew approximately 45.0% compared to the same period of 2015. The increase in distribution costs and administrative expenses was mainly due to increasing number of new stores which led to the growth of salary and compensation, depreciation expense, marketing and advertising expenses and rental fees.

Finance Costs

For the six months ended 30 June 2016, finance costs amounted to RMB28,375,000, a decrease of approximately 32.5% compared to RMB42,040,000 during the same period of 2015, which was mainly due to the decline of interest rate and improvement of inventory turnover days. During the six months ended 30 June 2016, inventory turnover days is 39.1 days, a decrease of 13.5 days from 52.6 days compared to the same period in 2015. In addition, there was no compensation to bondholders for the six months ended 30 June 2016, while the Group recorded compensation to bondholders of RMB9,099,000 during the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Associated Company and Joint Venture Company

For the six months ended 30 June 2016, share of results attributable to an associate and a joint venture were RMB11,786,000, an approximately 12.4% increase from share of results of RMB10,484,000 attributable to an associate and a joint venture in the same period of 2015.

Taxation

For the six months ended 30 June 2016, the Group's total income tax amounted to RMB24,360,000, an approximately 53.5% increase compared to RMB15,869,000 during the corresponding period in the prior year. The increase of income tax expenses was mainly attributed to the increased profit before tax in the first half of 2016 compared to the same period in the previous year.

Absorption Rate

Absorption rate is an indicator we use to measure our dealership-level services operations, which represents the recovery rate of a dealership's operating costs solely from the after-sales services.

The absorption rate is calculated as follows:

$$\text{Absorption Rate} = \frac{\text{After-sales services gross profit}}{\text{Distribution Costs} + \text{Administrative Expenses}}$$

An absorption rate of 100%, or close to 100%, indicates that the dealership's operating costs can essentially be supported by after sales services alone. For the six months ended 30 June 2016, our absorption rate for the Group was at 92.2%, representing a safe position for the overall operation of the Group, in which the after-sales services gross profit can basically cover all the distribution costs and administrative expenses of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Resources and Position

As at 30 June 2016, the Group's borrowings amounted to RMB696,029,000, representing a decline of approximately 10.8% from RMB779,916,000 as at 31 December 2015, including RMB584,636,000 of short-term loans and borrowings, RMB26,991,000 of long-term loans and borrowings, and the corporate bonds payable of RMB84,402,000 as at 30 June 2016.

As at 30 June 2016, cash and cash equivalents and bank deposits amounted to RMB627,438,000, and mostly dominated in Renminbi and Hong Kong Dollars. As the Group's businesses are conducted in the People's Republic of China ("PRC"), therefore the Group does not anticipate to be exposed to any material foreign exchange risks.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks and automobile manufacturer's captive financial institutions. The Group has adequate financial resources to meet all contractual obligations and operational requirements.

Contingent Liabilities

As at 30 June 2016, one subsidiary of the Group has issued financial guarantees to a financial institution in respect of financial facilities granted to related parties of the Group amounting to RMB158,000,000 (31 December 2015: RMB158,000,000) and the financial facility utilised by the related parties amounted to RMB68,315,000 as at 30 June 2016 (31 December 2015: RMB87,612,000).

As at 30 June 2016, the directors of the Company (the "Directors") do not consider it probable that a claim will be made under the above guarantee.

BUSINESS REVIEW

In the first half of 2016, the growth of China's economy and growth of automobile manufacturing and distribution slowed down, and increased number of dealer stores and online stores of various brands, represent a more fierce competition. Under the challenging automobile market condition, the Group consistently implemented our strategy of developing one store in one city focusing on medium and small cities, and relied on the systematic management by our mature operation and management teams, contributing to the increase of our gross profit from new passenger vehicle sales and after sales services.

New Passenger Vehicle Sales

For the six months ended 30 June 2016, the Group has sold 11,218 new vehicles in total, an approximately 24.5% increase compared to 9,012 vehicles during the same period of 2015. Among the sales volume increase for the first half of 2016, 46.9% was attributed to the sales increase at established stores while 53.1% from that of new stores. The new stores mainly focus on Toyota, BMW, Lexus and Porsche. According to the data from the China Automobile Dealers Association, the sales volume of BMW, Lexus, Toyota and Porsche ranked the first, third, fourth and fifth place respectively among imported vehicles in China in the first half of this year. These brands represent the foundation for the growth of our Company.

For the six months ended 30 June 2016, the revenue of the Group's new passenger vehicle sales amounted to RMB2,292,096,000, an approximately 21.1% increase compared to RMB1,892,876,000 during the same period in 2015. For the six months ended 30 June 2016, gross profit of new car sales was RMB95,262,000, an approximately 3.7% increase compared to RMB91,870,000 during the same period of 2015.

The growth of our profit depended on the Group's persistent efforts on strengthening its marketing efficiency, improving inventory turnover, promoting value added car financing services along with the sale of new vehicles, and enhancing the sales growth for financial insurance products. Indexes of the Group's marketing efficiency, inventory turnover and mortgage penetration took a leading role in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

After-sales Services

For the six months ended 30 June 2016, our after-sales services platform has served 121,053 units, an approximately 15.8% increase compared to 104,554 units during the corresponding period in 2015. Revenue of after-sales services for the six months ended 30 June 2016 amounted to RMB306,192,000, an approximately 29.1% increase compared to RMB237,097,000 during the corresponding period in the prior year. Gross profit of after-sales services for the six months ended 30 June 2016 amounted to RMB157,797,000, an approximately 34.2% increase compared to RMB117,558,000 during the corresponding period in the prior year.

In early 2016, a reform of commercial motor vehicle insurance was implemented, which led to an approximately 20% decrease of claims reports. Despite the backdrop market, we achieved a substantial growth in the number of vehicles, revenue and profit by the after-sales business, owing to the (i) rapid increase of new stores, proper management during the preparation period and newly established period for stores, resulted in rapid growth of after-sales services in new stores; (ii) fast response and strong implementation of solutions for auto insurers that covers insurance renewal, painting services, insurance and accident car management; and (iii) realization of significant growth of revenue and gross profit on automobile accessories through systematic management for accessories.

Looking forward, the Group will strengthen its management of customer experience to increase the frequency of customer visits and expand the scale of after-sales services.

New Store Openings

During the Period, 2 stores were opened taking the number of operating 4S dealership stores to 29, including 27 subsidiary stores, a joint venture store that is operated by us and an associate store. Currently, we are working on opening another 4 BMW stores this year, which are expected to start operation by the end of this year.

MANAGEMENT DISCUSSION AND ANALYSIS

New Projects

Currently we have certain projects under construction or in the planning phase.

Number	Brand	Province	City	The anticipated completion dates
1	BMW	Guangdong	Yangjiang	October, 2016
2	BMW	Guangdong	Zengcheng	November, 2016
3	BMW	Beijing	Beijing	December, 2016
4	BMW	Hu'nan	Liuyang	December, 2016
5	BMW	Hu'nan	Yongzhou	March, 2017
6	BMW	Gansu	Lanzhou	September, 2017
7	Lexus	Guangdong	Qingyuan	January, 2017
8	Lexus	Hu'nan	Zhuzhou	July, 2017

ISSUE OF BONDS AND WARRANTS

There is no issue of bonds or warrants in the Period.

PLACING OF SHARES

There is no issue of placing of shares in the Period.

NON-COMPETITION UNDERTAKING

Each of the controlling shareholders of the Company (the "Controlling Shareholders") has provided to the Company a written confirmation in respect of his/its compliance with the non-compete undertakings dated 13 November 2013 (the "Non-Compete Undertakings") for the six months ended 30 June 2016. The independent non-executive directors of the Company have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Non-Compete Undertakings and have confirmed that, as far as he/it can ascertain, there is no breach of any of the undertakings in the Non-Compete Undertakings.

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF TRAINING AND DEVELOPMENT

As at 30 June 2016, the Group had a total of 2,442 employees.

In addition to offering competitive remuneration packages to employees, discretionary bonuses and share options may also be granted to eligible employees based on individual performance. The Group advocates simple, direct and data-oriented corporate culture, whereby it is generally recognized internally in the Group and even in the industry, which becomes one of key elements of attracting talents to join.

The Group continues to improve its training courses, enhance personnel training and cultivation. In the first half of 2016, the Group starts to record video training materials in an effort to let all employees and management to receive respective training courses.

The management team of the Group values satisfaction of employees, strives for creating a better working environment and career paths for employees in order to let the employees change their financial status during the working period with the Group and continue to enhance their skills and management capacities, thus enjoying the gains brought by the job.

STATUS UPDATE FOR RECTIFICATION OF PROPERTIES TITLE DEFECT

As disclosed in the prospectus of the Company dated 22 November 2013 (the "Prospectus"), the Company will provide timely updates on the status of rectifications for properties with title defects with respect to owned and leased properties.

The Group has no status update on the property title defect for the six months ended 30 June 2016.

Matters in relation to the status update on the property ownership certificate issued to the landlords of Foshan Dongbao have been stated in the announcement dated 10 August 2016. For details, please refer to the announcement of the Company dated 10 August 2016.

Matters in relation to the updating progress, the Group will timely announce in accordance with the respective rules.

PROSPECTS OF THE SECOND HALF OF 2016

In the second half of 2016, the Group will strive to continue the growing trend in the first half of 2016, enrich the product's structure constantly, improve the business' process continuously, further strengthen the management of customers' satisfaction, strive for better results on sales of new car and after-sales repair services.

In the second half of 2016, it is expected that 4 newly opened stores will be BMW brand. It is expected that by the end of 2016, there will be 11 BMW brand stores owned by the Group and BMW brand will become one of the most operated brands by the Group. In addition, the Group has received the dealership certification of 2 Lexus brands and 2 BMW brands recently and expected to come into operation in the forthcoming year. By the end of 2016, it is expected that 33 stores will be in operation and 4 stores will be in establishment process, amounting to 37 stores including a joint venture store and an associate store.

The Group will continue to keep an eye on the dynamic situation of car dealers in the market, and plan to undertake new investment activities under suitable moments and circumstances.

The Group is aware of the complexity of the current domestic economic status, a robust investment approach will still be adopted, and the client's perspective of satisfaction shall be addressed as always. We will continue to unearth our efficient, flexible, specified, strongly planned operational management edges. With the joint effort of our outstanding management team, the target of the results can be realized.

OTHER INFORMATION

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, the interests or short positions of the Directors and chief executives in the shares of the Company (the "Shares") and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Model Code") to be notified to the Company and the Stock Exchange, were as follows:

Long Positions or Short Positions in Shares and Underlying Shares

Name of Director	Capacity	Interest in shares			Interest in Underlying Shares Pursuant to Share options	Approximate Percentage of Shareholding As at 30 June 2016
		Personal Interest In Shares	Family Interest In Shares	Total Interest In Shares		
Mr. Ye Fan ^(1 and 2)	Settlor of trust	-	754,400,000	754,400,000	-	69.33%
Mr. Ye Tao	Beneficial Owner	-	-	-	2,000,000	0.18%
Ms. Liu Xuehua	Beneficial Owner	-	-	-	2,150,000	0.20%

Notes:

- (1) *Mr. Ye Fan is the settlor of the Ye Family Trust, a revocable discretionary family trust. The entire capital of Apex Holdings Enterprises Limited (“Apex Holdings”) is an asset of such family trust, and Apex Holdings in turn holds the entire issued share capital of Apex Sail Limited (“Apex Sail”). Apex Sail directly holds 754,400,000 Shares and by virtue of the SFO, Mr. Ye Fan is deemed to be interested in the Shares of Apex Sail. An aggregate of 194,706,000 Shares out of those Shares held by Apex Sail had been pledged in favor of Honorsky Group Limited (the “Lender”) on 17 November 2014, and had been additionally pledged on 6 October 2015 to secure a loan granted to the Company, details of which are set out in the announcements dated 17 November 2014 and 6 October 2015.*

During the current period, the Company has repaid HK\$50,000,000 of the HK\$70,000,000 loan amount to the Lender on 23 February 2016 and a total of 114,706,000 of the pledged Shares and the further pledged Shares previously pledged have been released back to Apex Sail on 3 March 2016. Pursuant to the terms and conditions of the loan agreement, an aggregate of 80,000,000 Shares remain pledged as a security for a term loan facility of the remaining outstanding amount of HK\$20,000,000 provided to the Company by the Lender, details of which are set out in the announcement dated 3 March 2016.

- (2) *As at 30 June 2016, an additional aggregate of 175,838,151 Shares and 180,000,000 Shares held by Apex Sail had been pledged as security for the obligations of the Company under the bonds issued with warrants on 9 March 2015 and 26 August 2015 respectively, details of which are set out in the announcements dated 21 January 2015, 9 March 2015 and 26 August 2015.*

Details of Directors' interests in share options granted by the Company are set out under the heading “Directors' Rights to Acquire Shares” below.

OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme adopted by the Shareholders of the Company (the "Shareholders") on 13 November 2013 (the "SOS"), the Company has granted to certain Directors options to subscribe Shares, details of which as at 30 June 2016 were as follows:

Name of Director	Date of Grant	Exercisable Period	Number	Exercise Price	As at 30 June 2016	
			of shares subject to the outstanding options as at 01.01.2014		Number Of Shares Subject to Outstanding options	Approximate Percentage of shareholding
Mr. Ye Tao	20.01.2014	01.01.2015-12.11.2023	500,000	1.80	500,000	0.05%
	20.01.2014	01.01.2016-12.11.2023	500,000	1.80	500,000	0.05%
	20.01.2014	01.01.2017-12.11.2023	500,000	1.80	500,000	0.05%
	20.01.2014	01.01.2018-12.11.2023	500,000	1.80	500,000	0.05%
Ms. Liu Xuehua	20.01.2014	01.01.2015-12.11.2023	537,500	1.80	537,500	0.05%
	20.01.2014	01.01.2016-12.11.2023	537,500	1.80	537,500	0.05%
	20.01.2014	01.01.2017-12.11.2023	537,500	1.80	537,500	0.05%
	20.01.2014	01.01.2018-12.11.2023	537,500	1.80	537,500	0.05%

Notes:

- (1) *The vesting period of the share options is from the date of grant at 20 January 2014 until the commencement of the exercise period.*
- (2) *During the period, no options held by the Directors had lapsed, been cancelled or exercised.*
- (3) *These options represent personal interests held by the Directors as beneficial owners.*

Save as disclosed above, as at 30 June 2016, none of the Directors of the Company had any interests or short positions in the Shares or underlying shares of the Company or any of its associated corporations (within the meaning of part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the SOS, at no time during the period was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the register of interests in shares and short positions maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of Shareholder	Capacity	Number of Shares Held	Approximate percentage of shareholding
Apex Sail ^(1, 3 and 4)	Beneficial owner	754,400,000	69.33%
Apex Holdings ⁽¹⁾	Interest in a controlled corporation	754,400,000	69.33%
Ms. Hu Huanran ⁽²⁾	Interest of spouse	754,400,000	69.33%
Honorsky Group Limited ⁽³⁾	Person having a security interest in shares	80,000,000	7.35%
Mr. Zhang Li Ming ⁽³⁾	Beneficial owner	80,000,000	7.35%
Mr. Zhang Yan Bing ⁽³⁾	Beneficial owner	80,000,000	7.35%
Mr. Zhang Yan Bo ⁽³⁾	Beneficial owner	80,000,000	7.35%
FIL Limited	Investment manager	88,022,000	8.09%
Everbright Securities Company Limited ⁽⁴⁾	Interest in a controlled corporation	355,838,151	32.70%
Sun Hung Kai Financial Group Limited ⁽⁴⁾	Interest in a controlled corporation	355,838,151	32.70%

OTHER INFORMATION

Name of Shareholder	Capacity	Number of Shares Held	Approximate percentage of shareholding
PA Venture Opportunity IV Limited ^{(4) and (5)}	Person having a security interest in shares	355,838,151	32.70%
	Other	24,143,698	2.22%
Pacific Alliance Asia Opportunity Fund L.P. ^{(4) and (5)}	Interest in a controlled corporation	379,981,849	34.92%
Pacific Alliance Group Limited ^{(4) and (5)}	Interest in a controlled corporation	379,981,849	34.92%
Pacific Alliance Investment Management Limited ^{(4) and (5)}	Interest in a controlled corporation	379,981,849	34.92%
PAG Holdings Limited ^{(4) and (5)}	Interest in a controlled corporation	379,981,849	34.92%
Asian Equity Special Opportunities Portfolio Master Fund Limited ^{(4) and (5)}	Person having a security interest in shares	355,838,151	32.70%
	Other	38,629,916	3.55%
	Beneficial Owner	1,394,000	0.13%
RAYS Capital Partners Limited ^{(4) and (5)}	Investment Manager	397,088,067	36.49%
Ruan David Ching-chi ^{(4) and (5)}	Interest in a controlled corporation	397,088,067	36.49%
Yip Yok Tak Amy ^{(4) and (5)}	Interest in a controlled corporation	397,088,067	36.49%

Notes:

- (1) *Apex Sail is wholly owned by Apex Holdings. The entire issued share capital of Apex Holdings is wholly owned by Fiducia Suisse as the trustee of the Ye Family Trust. The Ye Family Trust is a revocable discretionary family trust founded by Mr. Ye Fan as the settlor. The Ye Brothers and certain of their family members are the discretionary objects of the Ye Family Trust.*
- (2) *Mr. Ye Fan is the settlor of the Ye Family Trust. By virtue of the SFO, Mr. Ye Fan is deemed to be interested in the Shares of Apex Sail. Mr. Ye Fan's spouse, Ms. Hu Huanran, is deemed to be interested in such 754,400,000 Shares by virtue of the SFO.*
- (3) *An aggregate of 80,000,000 Shares out of the Shares held by Apex Sail remained pledged in favor of Honorsky Group Limited (which is owned as to 60%, 20% and 20% by Mr. Zhang Li Ming, Mr. Zhang Yan Bing and Mr. Zhang Yan Bo respectively) to secure a loan granted to the Company, details of which are set out in the announcement dated 17 November 2014, 6 October 2015 and 3 March 2016.*
- (4) *During the year 2015, an additional 175,838,151 Shares and 180,000,000 Shares out of those Shares held by Apex Sail had been pledged as security for the obligations of the Company under the bonds issued with the warrants on 9 March 2015 and 26 August 2015 respectively, details of which are set out in the announcements dated 21 January 2015, 9 March 2015 and 26 August 2015.*
- (5) *The Bonds were issued with warrants, of which 24,143,698 warrants were held by PA Venture Opportunity IV Limited and 38,629,916 warrants were held by RAYS Capital Partners Limited (which is owned as to 50% and 50% by Mr. Ruan David Ching-chi and Ms. Yip Yok Tak Amy respectively), details of which are set out in the announcements dated 21 January 2015 and 9 March 2015.*

Save for the shareholders as disclosed herein, the Directors are not aware of any person (other than the Directors and chief executives of the Company) who had an interest or a short position in the Shares or underlying shares of the Company as recorded as at 30 June 2016 in the register to be kept by the Company under Section 336 of the SFO.

OTHER INFORMATION

SHORT POSITIONS IN SHARES AND UNDERLYING SHARES IN THE COMPANY

As at 30 June 2016, the Company had not been notified of any short positions being held by any substantial Shareholder in the Shares or underlying Shares of the Company.

OTHER PERSONS

As at 30 June 2016, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial Shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

SHARE OPTION SCHEME

Pursuant to the SOS, the Company may, at their discretion, invite full-time or part-time employees of the Group, including Directors of the Company and its subsidiaries, and any suppliers, customers, consultants, agents and advisors, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for Shares. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The SOS will remain in force for a period of 10 years commencing on 13 November 2013.

The share options under the SOS are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

OTHER INFORMATION

The total number of Shares in respect of which options may be granted under the SOS is not permitted to exceed 10% of the Shares in issue on the date of the listing of the Company on 5 December 2013 (the "Listing Date") without prior approval from the Shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under the SOS or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Options granted under the SOS must be taken up within 21 days of the date of grant, upon payment of HK\$1.00 per grant.

On 20 January 2014, share options to subscribe for 11,400,000 Shares were granted under the SOS to two Directors and eligible employees (the "Grant"). The Grant represents approximately 1.05% of the issued share capital of the Company as at the date of this report. Details of the share options outstanding as at the date of this report are as follows:

Option Type	Date of Grant	Exercisable Period	Exercise Price
2014 Options	20.01.2014	01.01.2015-12.11.2023	HK\$1.80
	20.01.2014	01.01.2016-12.11.2023	HK\$1.80
	20.01.2014	01.01.2017-12.11.2023	HK\$1.80
	20.01.2014	01.01.2018-12.11.2023	HK\$1.80

OTHER INFORMATION

The following table discloses movements in the share options of the Company during the period:

Name of Director	Option type	Date of Grant	Exercisable Period	Exercise Price HK\$	Number Of Shares Subject To the Outstanding Options As at 31.12.2015	Granted During The period	Lapsed During The period	Outstanding Options As at 30.06.2016	Weighted Average Closing price Of shares Immediately Before the Date(s) on Which the Options were Exercised
									HK\$
Category ¹ :									
Directors									
Mr. Ye Tao	2014 Options	20.01.2014	01.01.2015-12.11.2023	1.80	500,000	-	-	500,000	-
		20.01.2014	01.01.2016-12.11.2023	1.80	500,000	-	-	500,000	-
		20.01.2014	01.01.2017-12.11.2023	1.80	500,000	-	-	500,000	-
		20.01.2014	01.01.2018-12.11.2023	1.80	500,000	-	-	500,000	-
Ms. Liu Xuehua	2014 Options	20.01.2014	01.01.2015-12.11.2023	1.80	537,500	-	-	537,500	-
		20.01.2014	01.01.2016-12.11.2023	1.80	537,500	-	-	537,500	-
		20.01.2014	01.01.2017-12.11.2023	1.80	537,500	-	-	537,500	-
		20.01.2014	01.01.2018-12.11.2023	1.80	537,500	-	-	537,500	-
Total for Directors					4,150,000	-	-	4,150,000	-
Category ² :									
Employees									
	2014 Options	20.01.2014	01.01.2015-12.11.2023	1.80	1,605,000	-	(275,000)	1,330,000	-
		20.01.2014	01.01.2016-12.11.2023	1.80	1,605,000	-	(275,000)	1,330,000	-
		20.01.2014	01.01.2017-12.11.2023	1.80	1,605,000	-	(275,000)	1,330,000	-
		20.01.2014	01.01.2018-12.11.2023	1.80	1,605,000	-	(275,000)	1,330,000	-
Total for Employees					6,420,000	-	(1,100,000)	5,320,000	-
All Category					10,570,000	-	(1,100,000)	9,470,000	-

Notes:

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (2) During the period, no options had been cancelled or exercised.
- (3) The closing price of the Shares immediately before 20 January 2014, the date of grant of the 2014 Options, was HK\$1.63.
- (4) The fair value of the 2014 Options granted at the date of grant (20 January 2014) totaled approximately HK\$8,505,000.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company repurchased an aggregate of 2,798,000 Shares on the market during the period from 11 January 2016 to 20 January 2016. During the six months ended 30 June 2016, 4,040,000 Shares have been cancelled on 3 March 2016, including 1,242,000 Shares that have been repurchased but not cancelled on 31 December 2015.

Particulars of the Shares repurchased on the Stock Exchange during the six months ended 30 June 2016 are as follow:

2016	Number of Shares repurchased by the Company	Highest price per share HK\$	Lowest price per share HK\$	Aggregate consideration paid HK\$
11 January	464,000	0.87	0.81	392,941
15 January	666,000	0.89	0.83	577,748
18 January	900,000	0.89	0.84	789,854
19 January	518,000	0.91	0.86	466,948
20 January	250,000	0.91	0.89	227,543
TOTAL	2,798,000			2,455,034

The Directors believe that the above repurchases would lead to an enhancement of the earnings per share of the Company, which is in the best interests of the Company and the Shareholders.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the six months ended 30 June 2016 and until the date of this Interim Report.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2016.

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

AUDIT COMMITTEE

The Company has an audit committee (the “Audit Committee”) which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls.

An Audit Committee meeting was held on 25 August 2016 to review the unaudited interim financial report for the six months ended 30 June 2016. KPMG, the Group’s external auditor, has carried out a review of the interim financial report for the six months ended 30 June 2016 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2016.

REPORT ON REVIEW OF INTERIM FINANCIAL REPORT



Review report to the board of directors of China MeiDong Auto Holdings Limited

(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 25 to 56 which comprises the consolidated statement of financial position of China MeiDong Auto Holdings Limited as of 30 June 2016 and the related consolidated statement of comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

CONCLUSION

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

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

25 August 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – unaudited

	Note	Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Revenue	3 & 4	2,598,288	2,129,973
Cost of sales	6	(2,345,229)	(1,920,545)
Gross profit		253,059	209,428
Other income	5	23,331	10,039
Distribution costs		(92,651)	(63,910)
Administrative expenses		(78,481)	(54,117)
Profit from operations		105,258	101,440
Interest expenses		(28,375)	(32,941)
Compensation to bondholders		–	(9,099)
Finance costs	6(a)	(28,375)	(42,040)
Share of profits of an associate		1,835	1,639
Share of profits of a joint venture		9,951	8,845
Profit before taxation	6	88,669	69,884
Income tax	7	(24,360)	(15,869)
Profit and total comprehensive income for the period		64,309	54,015
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		62,533	51,171
Non-controlling interests		1,776	2,844
Profit and total comprehensive income for the period		64,309	54,015
Earnings per share	8		
Basic and diluted (RMB cents)		5.75	5.06

The notes on pages 31 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited

		At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	9	583,102	550,985
Lease prepayments		101,953	103,428
Intangible assets		13,587	11,155
Interest in an associate		16,506	14,671
Interest in a joint venture		56,338	46,387
Other non-current assets		20,041	22,829
Deferred tax assets		14,179	14,171
		805,706	763,626
Current assets			
Inventories	10	552,787	466,318
Trade and other receivables	11	373,922	373,773
Bank deposits	12	340,436	521,084
Cash and cash equivalents	13	287,002	253,915
		1,554,147	1,615,090
Current liabilities			
Loans and borrowings	14	584,636	641,606
Trade and other payables	15	837,443	782,285
Corporate bonds	16	37,380	–
Income tax payables		12,796	16,923
		1,472,255	1,440,814
Net current assets		81,892	174,276
Total assets less current liabilities		887,598	937,902

The notes on pages 31 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited

		At 30 June	At 31 December
		2016	2015
	Note	RMB'000	RMB'000
Non-current liabilities			
Loans and borrowings	14	26,991	60,500
Corporate bonds	16	47,022	77,810
Deferred tax liabilities		4,723	4,451
Other non-current liabilities		3,643	1,488
		82,379	144,249
NET ASSETS		805,219	793,653
EQUITY			
Share capital	17	85,529	85,869
Reserves		689,017	678,887
Total equity attributable to equity shareholders of the Company		774,546	764,756
Non-controlling interests		30,673	28,897
TOTAL EQUITY		805,219	793,653

Approved and authorised for issue by the board of directors on 25 August 2016.

Ye Fan
 Director

Ye Tao
 Director

The notes on pages 31 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited

	Attributable to equity shareholders of the Company							Total equity RMB'000	
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserves RMB'000	PRC statutory reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000		Non-controlling interests RMB'000
Balance at 1 January 2015	78,620	279,531	-	(53,272)	36,131	203,282	544,292	21,008	565,300
Changes in equity for the six months ended 30 June 2015:									
Profit and total comprehensive income for the period	-	-	-	-	-	51,171	51,171	2,844	54,015
Dividends approved in respect of the previous years (Note 17(a))	-	(30,000)	-	-	-	-	(30,000)	-	(30,000)
Equity settled share-based transactions	-	-	-	889	-	-	889	-	889
Issuance of warrants, net of issuance expenses	-	-	-	12,976	-	-	12,976	-	12,976
Issuance of new shares, net of issuance expenses	7,895	131,365	-	-	-	-	139,260	-	139,260
Balance at 30 June 2015 and 1 July 2015	86,515	380,896	-	(39,407)	36,131	254,453	718,588	23,852	742,440
Changes in equity for the six months ended 31 December 2015:									
Profit and total comprehensive income for the period	-	-	-	-	-	50,992	50,992	1,045	52,037
Capital injection by non-controlling interests	-	-	-	-	-	-	-	4,000	4,000
Appropriation to reserves	-	-	-	29,526	-	(29,526)	-	-	-
Equity settled share-based transactions	-	-	-	612	-	-	612	-	612
Repurchase of own shares	(646)	(5,436)	646	-	-	-	(5,436)	-	(5,436)
Balance at 31 December 2015	85,869	375,460	646	(38,795)	65,657	275,919	764,756	28,897	793,653

The notes on pages 31 to 56 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited

	Attributable to equity shareholders of the Company							Total equity RMB'000	
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserves RMB'000	PRC statutory reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000		Non-controlling interests RMB'000
Balance at 1 January 2016	85,869	375,460	646	(38,795)	65,657	275,919	764,756	28,897	793,653
Changes in equity for the six months ended 30 June 2016									
Profit and total comprehensive income for the period	-	-	-	-	-	62,533	62,533	1,776	64,309
Dividends approved in respect of the previous years (Note 17(a))	-	(50,054)	-	-	-	-	(50,054)	-	(50,054)
Repurchase of own shares (Note 17(b))	(340)	(3,094)	340	-	-	-	(3,094)	-	(3,094)
Equity settled share-based transactions (Note 17(c))	-	-	-	405	-	-	405	-	405
Balance at 30 June 2016	85,529	322,312	986	(38,390)	65,657	338,452	774,546	30,673	805,219

The notes on pages 31 to 56 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016 – unaudited

	Note	Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations		216,030	138,691
Income tax paid		(28,222)	(14,692)
Net cash generated from operating activities		187,808	123,999
Investing activities			
Payment for the purchase of property, plant and equipment		(61,968)	(92,605)
Other cash flows (used in)/generated from investing activities		(652)	14,078
Net cash used in investing activities		(62,620)	(78,527)
Financing activities			
Proceeds from loans and borrowings		416,629	459,015
Repayment of loans and borrowings		(435,995)	(599,861)
Dividends paid to equity shareholders		(50,054)	–
Proceeds from issuance of new shares, net of issuance expenses		–	139,260
Proceeds from issuance of bonds and warrants, net of issuance expenses	16 & 17(d)	–	80,102
Interest paid		(22,098)	(28,971)
Payment for repurchase of own shares	17(b)	(3,094)	–
Advances from related parties		7,311	311
Repayment of advances from a related party		(4,800)	–
Net cash (used in)/generated from financing activities		(92,101)	49,856
Net increase in cash		33,087	95,328
Cash at 1 January	13	253,915	127,183
Cash at 30 June	13	287,002	222,511

The notes on pages 31 to 56 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

China MeiDong Auto Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 24 February 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (together, the “Group”) are principally engaged in 4S dealership business in the People’s Republic of China (the “PRC”).

This 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, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 25 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any change in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION *(continued)*

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 23 and page 24.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*
- Amendments to HKAS 27, *Separate financial statements: Equity method in separate financial statements*

None of these developments 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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

3 SEGMENT REPORTING

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sales of passenger vehicles and provision of after-sales services.

(i) Information about geographical area

All of the Group's revenue is derived from the sales of passenger vehicles and provision of after-sales services in mainland China and the principal non-current assets employed by the Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the reporting period.

(ii) Information about major customers

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenues.

4 REVENUE

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

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Sales of passenger vehicles	2,292,096	1,892,876
After-sales services	306,192	237,097
	2,598,288	2,129,973

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

5 OTHER INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Commission income	16,481	8,116
Bank interest income	2,207	2,763
Net gain/(loss) on disposal of property, plant and equipment	2,170	(1,511)
Others	2,473	671
	23,331	10,039

6 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
(a) Finance costs:		
Interest on:		
– loans and borrowings	14,023	22,280
– corporate bonds	10,239	4,167
Total borrowing cost	24,262	26,447
Other finance costs (i)	4,113	6,494
Total interest expenses	28,375	32,941
Compensation to bondholders	–	9,099
	28,375	42,040

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

6 PROFIT BEFORE TAXATION (continued)

		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
(b)	Staff costs:		
	Salaries, wages and other benefits	95,927	69,503
	Equity settled share-based payment expenses (ii)	405	889
	Contributions to defined contribution retirement plans (iii)	3,806	3,046
		100,138	73,438
(c)	Other items:		
	Cost of inventories	2,320,369	1,899,835
	Depreciation	26,404	17,704
	Amortisation of lease prepayments	1,474	1,421
	Amortisation of intangible assets	409	377
	Operating lease charges	12,578	8,392
	Net foreign exchange loss/(gain)	252	(6)

(i) It represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.

(ii) The Group recognised an expense of RMB405,000 for the six months ended 30 June 2016 in relation to share options granted to certain employees of the Group pursuant to a share option scheme (six months ended 30 June 2015: RMB889,000) (see note 17(c)).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(continued)*

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

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

7 INCOME TAX

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current tax:		
Provision for PRC income tax for the period	24,096	21,464
Deferred tax:		
Reversal/(origination) of temporary differences	264	(5,595)
	24,360	15,869

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.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not have assessable profits subject to Hong Kong Profits Tax during the reporting period. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

7 INCOME TAX (continued)

Under the Corporate Income Tax Law of the PRC which was passed by the Fifth Plenary Session of the Tenth National People's Congress, effective from 1 January 2008, the PRC's statutory income tax rate is 25%. The Group's PRC subsidiaries are subject to income tax at the statutory tax rate.

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

The calculation of basic earnings per share for the six months ended 30 June 2016 is based on the profit attributable to equity shareholders of the Company of RMB62,533,000 (six months ended 30 June 2015: RMB51,171,000) and the weighted average of 1,088,383,000 ordinary shares in issue (six months ended 30 June 2015: 1,010,497,000 shares) during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2016	2015
Issued ordinary shares at 1 January	1,092,170,000	1,000,000,000
Effect of new shares issued	–	10,497,000
Effect of shares repurchased (<i>see note 17(b)</i>)	(3,787,000)	–
Weighted average number of ordinary shares at 30 June	1,088,383,000	1,010,497,000

The impact of share options and warrants to earnings per share was anti-dilutive for the six months ended 30 June 2016 and the six months ended 30 June 2015 and therefore there were no dilutive potential ordinary shares during the interim period. As a result, the diluted earnings per share is equivalent to the basic earnings per share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

9 PROPERTY, PLANT AND EQUIPMENT

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Net book value, at 1 January	550,985	437,039
Acquisition through business combination	–	12,024
Additions	67,989	173,939
Disposals	(18,030)	(45,947)
Depreciation charge for the period/year	(26,404)	(38,293)
Written back on disposals	8,562	12,223
At 30 June/31 December	583,102	550,985

10 INVENTORIES

Inventories in the consolidated statement of financial position comprised:

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Motor vehicles	502,851	428,341
Others	49,936	37,977
	552,787	466,318

No inventory provision was made as at 30 June 2016 and 31 December 2015, and the inventories as at 30 June 2016 and 31 December 2015 were stated at cost.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

11 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date that are neither individually nor collectively considered to be impaired is as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 month	40,913	28,142
1 to 2 months	3,911	1,632
2 to 3 months	1,169	182
Over 3 months	2,160	1,423
Trade debtors	48,153	31,379
Prepayments	69,502	82,943
Other receivables and deposits	252,873	258,390
Amounts due from third parties	370,528	372,712
Amounts due from a related party (<i>note 21(c)</i>)	3,394	1,061
Trade and other receivables	373,922	373,773

Credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group, which is normally settled within one month directly by major financial institutions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

12 BANK DEPOSITS

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Restricted bank deposits pledged in respect of loans and borrowings	97,750	206,768
Restricted bank deposits pledged in respect of bills payable	228,186	314,316
Unrestricted bank deposits	14,500	–
	340,436	521,084

The pledged bank deposits will be released upon the settlement of relevant loans and borrowings and bills payable.

13 CASH AND CASH EQUIVALENTS

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Cash at banks and in hand	287,002	253,915

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

14 LOANS AND BORROWINGS

(a) At 30 June 2016, loans and borrowings were repayable as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year or on demand	584,636	641,606
After 1 year but within 2 years	26,991	40,500
After 2 years but within 5 years	–	20,000
	26,991	60,500
	611,627	702,106

(b) At 30 June 2016, loans and borrowings were secured as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Unsecured bank loans	9,297	33,087
Unsecured borrowings from other financial institutions	31,825	27,631
	41,122	60,718
Secured bank loans	336,075	399,123
Secured borrowings from other financial institutions	217,338	183,619
Secured borrowings from a third party	17,092	58,646
	570,505	641,388
	611,627	702,106

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

15 TRADE AND OTHER PAYABLES

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 3 months	524,731	477,384
Over 3 months but within 6 months	53,066	56,209
Total trade payables and bills payable	577,797	533,593
Receipts in advance	195,773	178,211
Other payables and accruals	59,868	68,914
Amounts due to third parties	833,438	780,718
Amounts due to related parties (<i>note 21(c)</i>)	4,005	1,567
Trade and other payables	837,443	782,285

All trade and other payables are expected to be settled within one year.

16 CORPORATE BONDS

On 9 March 2015, the Company issued bonds in the aggregate principal amount of HK\$101,400,000 and warrants (see note 17(d)) to certain third parties. The fair value of the bonds amounting to RMB67,126,000 was estimated at the issuance date using the Discounted Cashflow Method.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

16 CORPORATE BONDS (continued)

According to the terms and conditions of the bonds, the bonds bear an interest rate of 9% per annum and will mature in 3 years. The bonds may additionally bear a default interest rate of 25% per annum subject to the occurrence of certain default events. The bondholders were entitled to redeem the bonds after the second anniversary of the issuance date but no later than the date which is fourteen days before the bond maturity date, in a maximum principal amount equal to 50 percent of the principal amount. Unless previously redeemed or cancelled as provided herein, the Company shall redeem any outstanding bonds on the maturity date in an amount equal to the redemption amount and an additional redemption amount HK\$22,815,000 on the bonds, to be payable to each bondholder pro-rata to the principal amount of the bonds held by that bondholder. The redemption rights of the bonds were separately evaluated with nil fair value at both the issuance date and the reporting period end. In addition, the Company shall pay compensation in cash to bondholders if the Company breaches certain conditions stipulated in the bond instrument contract.

As at 30 June 2016, the balance of corporate bonds represented initial fair value of RMB67,126,000 (31 December 2015: RMB67,126,000) and the amortised interests of RMB19,681,000 (31 December 2015: RMB13,063,000), deducted by the corresponding interests of RMB2,405,000 (31 December 2015: RMB2,379,000) at the nominal interest rate of 9% on the principal amount of the corporate bonds, which was recorded in trade and other payables.

As at 30 June 2016, the balance of corporate bonds of RMB37,380,000 was classified as current liabilities as the bond holders were entitled to redeem part of the bonds after 9 March 2017, being the second anniversary of the issuance date (31 December 2015: nil).

The bonds were guaranteed by Mr. Ye Fan and Mr. Ye Tao and secured by 355,838,151 ordinary shares of the Company held by its immediate parent company, Apex Sail Limited ("Apex Sail").

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial year:

Approved during the interim period:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB4.6 cents per ordinary share (six months ended 30 June 2015: RMB3 cents per ordinary share)	50,054	30,000

During the six months ended 30 June 2016, the Company approved the final dividend in respect of the year ended 31 December 2015 of RMB50,054,000, and paid in June 2016.

During the six months ended 30 June 2015, the Company approved the final dividend in respect of the year ended 31 December 2014 of RMB30,000,000, and paid in July 2015.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Repurchase of own shares

During the interim period, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased (thousand)	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$ ('000)
January 2016	2,798	0.91	0.81	2,455

As of 30 June 2016, the Company cancelled above repurchased shares and 1,242,000 number of ordinary shares repurchased on 31 December 2015 and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB340,000 was transferred from the share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB2,754,000 was charged to the share premium account as well.

(c) Equity settled share-based transactions

Pursuant to a resolution of the board of directors of the Company passed on 20 January 2014, 11,400,000 share options were granted to certain eligible employees under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 11,400,000 shares of the Company in aggregate with an exercise price of HK\$1.8, among which 2,000,000 and 2,150,000 share options were granted to Mr. Ye Tao and Ms. Liu Xuehua, the executive directors of the Company, respectively.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Equity settled share-based transactions *(continued)*

Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 each of the Company. Each 25% of these share options will vest on 1 January 2015, 1 January 2016, 1 January 2017 and 1 January 2018, respectively, and be exercisable until 12 November 2023.

No options were exercised during the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

The Group recorded equity settled share-based payment expenses of RMB405,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB889,000) (see note 6(b)(ii)).

(d) Warrants

On 9 March 2015, the Company issued warrants, which entitled the holders thereof to subscribe up to RMB118,202,715 for 62,774,000 warrant shares at a subscription price of RMB1.883 per warrant share within three years after the issuance date. The fair value of warrants amounting to RMB13,103,000 net of direct warrant issuance expenses of RMB127,000 was credited to capital reserve during the six months ended 30 June 2016.

No warrants were exercised during the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

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

The Group hired an external valuation company performing valuations for the financial instruments, including the redemption option embedded in the corporate bonds. The external valuation company reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(continued)*

(a) Financial assets and liabilities measured at fair value *(continued)*

(i) Fair value hierarchy *(continued)*

	Fair value at 30 June 2016 and 31 December 2015	Fair value measurement as at 30 June 2016 and 31 December 2015 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instruments:				
– Redemption option embedded				
in corporate bonds	–	N/A	N/A	–

During the six months ended 30 June 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(continued)*

(a) Financial assets and liabilities measured at fair value *(continued)*

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range	Weighted average
Redemption option embedded in corporate bonds	Swaption Model	Discount rate	16.56% (2015: 22%)	16.56% (2015: 22%)

The fair value of redemption option embedded in the corporate bonds is determined using swaption model and the significant unobservable input used in the fair value measurement is discount rate. The fair value measurement is negatively correlated to the discount rate. As at 30 June 2016, it is estimated that with all other variables held constant, an increase/decrease in the discount rate by 1% would have decreased/increased the Group's profit by 0% (2015: nil).

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	RMB'000
Redemption option embedded in corporate bonds at issuance date (9 March 2015), 31 December 2015 and 30 June 2016	—

(b) Financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2016 and 31 December 2015.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

19 CONTINGENT LIABILITIES

As at 30 June 2016, one subsidiary of the Group has issued financial guarantees to a financial institution in respect of financial facilities granted to related parties of the Group amounting to RMB158,000,000 (31 December 2015: RMB158,000,000) and the financial facility utilised by the related parties amounted to RMB68,315,000 as at 30 June 2016 (31 December 2015: RMB87,612,000) (*see note 21(e)*).

As at 30 June 2016, the directors do not consider it probable that a claim will be made under the above guarantee.

20 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Contracted for	27,015	26,440
Authorised but not contracted for	44,128	48,117
	71,143	74,557

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2016, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Ye Fan 葉帆	Controlling Shareholder
Ye Tao 葉濤	Close family member of the Controlling Shareholder
Guangdong Dadong Automotive Group Co., Ltd. ("Dadong Group") 廣東大東汽車集團有限公司	Controlled by the Controlling Shareholder
Dongguan Meidong Automotive Service Co., Ltd. ("Dongguan Meidong") 東莞美東汽車服務有限公司	Joint venture
Dongguan Anxin Toyota Automotive Sales and Services Co., Ltd. ("Dongguan Anxin") 東莞安信豐田汽車銷售服務有限公司	Associate
Apex Sail	Immediate parent company
Shenzhen Tengjin Property Management Co., Ltd. ("Shenzhen Tengjin") 深圳滕進物業管理有限公司	Non-controlling shareholder of a subsidiary

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Rental expense:		
– Dadong Group	228	228

(b) Non-recurring transactions

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Sales of passenger vehicles:		
– Dongguan Meidong	10,205	7,648
– Dongguan Anxin	–	1,313
	10,205	8,961
Purchases of passenger vehicles:		
– Dongguan Meidong	13,519	6,194
– Dongguan Anxin	–	353
	13,519	6,547
Repayment of entrusted loan:		
– Ye Fan	–	40,000
Repayment of advance to related parties:		
– Ye Fan	–	5,432

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Non-recurring transactions *(continued)*

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Advance from related parties:		
– Ye Fan	4,911	311
– Shenzhen Tengjin	2,400	–
	7,311	311
Repayment of advance from a related party:		
– Ye Fan	4,800	–

(c) Balances with related parties

At 30 June 2016, the Group had the following balances with related parties:

	At	At
	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade receivables due from:		
– Dongguan Meidong	2,939	–
Prepayment to:		
– Dongguan Meidong	455	–
Other receivables due from:		
– Dongguan Meidong	–	1,061

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Other payables due to:		
– Dongguan Meidong	126	427
– Dadong Group	1,368	1,140
– Ye Fan	111	–
– Shenzhen Tengjin	2,400	–
	4,005	1,567

The amounts due from/to related parties are unsecured, interest free and have no fixed terms of repayment.

(d) Guarantees and securities issued by related parties

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Guarantees issued by a related party in respect of loans and borrowings borrowed by the Group:		
– Ye Fan (i)	102,890	190,699
Guarantees issued by a related party in respect of bills issued by the Group:		
– Ye Fan	10,000	48,500
Guarantees issued by related parties in respect of corporate bonds issued by the Group:		
– Ye Fan/Ye Tao (ii)	84,402	77,810

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(d) Guarantees and securities issued by related parties *(continued)*

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Securities provided by a related party in respect of a loan borrowed by the Group:		
– Apex Sail (i)	17,092	58,646
Securities provided by a related party in respect of corporate bonds issued by the Group:		
– Apex Sail (ii)	84,402	77,810

- (i) Loans and borrowings of RMB102,890,000 were guaranteed by Mr. Ye Fan as at 30 June 2016 (31 December 2015: RMB190,699,000), of which HK\$20,000,000, equivalent to RMB17,092,000 (31 December 2015: HK\$70,000,000, equivalent to RMB58,646,000), was secured by 80,000,000 ordinary shares (31 December 2015: 194,706,000 ordinary shares) of the Company held by Apex Sail.
- (ii) As of 30 June 2016, corporate bonds of RMB84,402,000 (31 December 2015: RMB77,810,000) were guaranteed by Mr. Ye Fan and Mr. Ye Tao and secured by 355,838,151 ordinary shares of the Company held by Apex Sail.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(e) Guarantees issued by the Group

	The Group	
	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Guarantees issued by the Group in respect of financial facilities granted to related parties:		
– Dongguan Meidong	80,000	80,000
– Dongguan Anxin	78,000	78,000
	158,000	158,000

(f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees, is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	2,261	2,432
Equity compensation benefits	249	447
	2,510	2,879

Total remuneration is included in staff costs (see note 6(b)).