



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

INTERIM REPORT 2017





LEONIS 雷克萨斯

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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

Chen Guiyi
Wong, Michael Chou
Jip Ki Chi

AUTHORISED REPRESENTATIVES

Ye Tao

COMPANY SECRETARY

Wong Cheung Ki Johnny

AUDIT COMMITTEE

Jip Ki Chi (*Chairman*)
Wang, Michael Chou
Chen Guiyi

REMUNERATION COMMITTEE

Wong, Michael Chou (*Chairman*)
Chen Guiyi
Jip Ki Chi

NOMINATION COMMITTEE

Ye Fan (*Chairman*)
Wong, Michael Chou
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

Conyers Trust (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.
Industrial and Commercial Bank of China Limited
Bank of China (Hong Kong) Limited

STOCK CODE

1268

COMPANY'S WEBSITE

www.meidongauto.com

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2017, the Group's total revenue was RMB3,332,259,000, representing an increase of 28.2% compared with the total revenue of RMB2,598,288,000 during the corresponding period of last year. This included new vehicles sales of RMB2,927,564,000, which grew approximately 27.7% compared to the same period of last year; and after-sales revenue of RMB404,695,000, which grew about 32.2% compared to the same period in 2016.

Gross Profit

For the six months ended 30 June 2017, the Group reported a total gross profit of RMB371,280,000, a 46.7% increase compared with the total gross profit of RMB253,059,000 during the corresponding period in 2016. This included profit of new car sales reaching RMB170,664,000, an approximately 79.2% increase compared to the same period in 2016; after-sales gross profit of RMB200,616,000, an approximately 27.1% increase compared to the same period of last year.

Distribution Costs and Administrative Expenses

Distribution costs for the six months ended 30 June 2017 amounted to RMB125,883,000, which grew approximately 35.9% compared to the same period of last year. Administrative expenses for the six months ended 30 June 2017 amounted to RMB112,349,000, which grew approximately 43.2% compared to the same period of last year. The increase in distribution costs and administrative expenses was mainly due to increasing number of operating stores. As at 30 June 2017, the Group has 32 operating subsidiary stores, increased by 5 operating subsidiary stores compared to the same period in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

For the six months ended 30 June 2017, finance costs amounted to RMB28,634,000, an increase of approximately 0.9% compared to the finance costs of RMB28,375,000 during the same period of last year. During the six months ended 30 June 2017, inventory turnover days is 39.8 days, an increase of 0.7 day from 39.1 days compared to the same period in 2016.

Associated Company and Joint Venture Company

For the six months ended 30 June 2017, share of results attributable to an associate and a joint venture were RMB12,558,000 an approximately 6.6% increase from share of results of RMB11,786,000 attributable to an associate and a joint venture in the same period of the previous year.

Taxation

For the six months ended 30 June 2017, the Group's income tax expenses amounted to RMB40,895,000, an approximately 67.9% increase compared to the total taxation of RMB24,360,000 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 2017 compared to the same period in the previous year.

Financial Resources and Position

As at 30 June 2017, the Group's borrowings amounted to RMB824,802,000, representing an increase of approximately 5.1% from the borrowing of RMB784,597,000 as at 31 December 2016, including RMB665,114,000 of short-term loans and borrowings, RMB61,917,000 of long-term loans and borrowings, and the corporate bonds payable of RMB97,771,000 as at 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, cash and cash equivalents and pledged bank deposits amounted to RMB524,101,000, and most of cash and cash equivalents and pledged bank deposits are dominated in Renminbi and Hong Kong Dollars. As the Group's businesses are conducted in the 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 2017, 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 RMB178,000,000 (31 December 2016: RMB178,000,000) and the financial facility utilised by the related parties amounted to RMB63,451,000 as at 30 June 2017 (31 December 2016: RMB43,381,000).

As at 30 June 2017, the directors do not consider it probable that a claim will be made under the above guarantee.

BUSINESS REVIEW

Market

New Car Sales

Since the inflection point in 2016, the industry saw significant recovery from the downturn over the past few years. During the first half year of 2017 ("1H2017"), there were 11.3 million units of passenger cars sold, presenting a moderate year-on-year ("YOY") growth of 2.7% as compared to the corresponding period of 2016 (1H2016: 11.0 million units) according to the China Association of Automobile Manufacturers. Despite the moderate macro growth, the growth of luxury cars market remained encouraging. For the major 12 luxury brands, there were altogether over 1.2 million units sold during the period, presenting YOY growth of approximately 18.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

After-sales Service

Over the past decade, the after-sales service market has been expanding with value over RMB 8 trillion alongside with the increasing vehicle ownership according to report “Automotive market-China 2016” by Mintel Group Limited (“Mintel”). As at 30 June 2017, vehicle ownership reached 304 million units with steady YOY growth of 3.18%, according to the Traffic Management Bureau of the Ministry of Public Security. This indicates the existence of a massive after-sales service market and potential business opportunities.

Favorable Policies

Besides the positive growth of industry and strong market potential in small cities, favorable policies were also promulgated, facilitating the growth of domestic auto dealership industry. The new set of car sale regulations (“汽車銷售管理辦法”) released by the Ministry of Commerce of the PRC enhances the negotiating power and operating flexibility of dealers in terms of brand mix of each store, pricing and inventory management, as well as construction details, which facilitates a win-win relationship between suppliers and dealer and boosts the operating efficiency and investment return of dealers going forward.

With a well-balanced brand portfolio and unique expansion strategy “single-city, single brand” which focuses on the fast-growing 2nd to 4th cities in the PRC, China MeiDong is equipped with capabilities to seize vast opportunities within the market.

Operation

Carrying forward the strong momentum from Year 2016, the Group has presented another set of outstanding results. For the six months ended 30 June 2017 (the “Period”), the Group recorded revenue of RMB3,332.3 million, showing YOY increase of approximately 28.2% (1H2016: RMB2,598.3 million). Gross profit exceptionally rose by approximately 46.7% to RMB371.3 million compared with RMB253.1 million from 1H2016. The increase in average selling price of new car sales resulted with a substantial rise of approximately 1.4 percentage points (“p.p.”) in gross profit margin, reaching 11.1% for the Period (1H2016: 9.7%). Remarkably, profit attributable to equity shareholders of the Company surged by over 72.6% and reached RMB107.9 million due to the successful implementation of its development strategy, enhancement of management efficiency, the additional contribution of stores opened in late 2016 and the strong product cycles of the Group’s major brands. Basic earnings per share was RMB9.92 cents.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

During the Period, the Group had achieved remarkable enhancement on gross profit driven by the strong revenue. Its overall gross profit notably increased from RMB253.1 million from 1H2016 to RMB371.3 million, showing a substantial growth of 46.7%. New car sales attained an impressive increase of 79.2% in its gross profit, amounting to RMB170.7 million for the Period (1H2016: RMB95.3 million) while gross profit of after-sales service rose from RMB157.8 million to RMB200.6 million and significantly surged by 27.1%.

Driven by the continuous improvement in management and operational efficiency, the Group recorded remarkable enhancement in gross profit margin. During the Period, the Group's overall gross profit margin enhanced from 9.7% from the corresponding period of last year to 11.1%. New car sales also enjoyed a surge in its gross profit margin, growing from 4.2% during 1H2016 to 5.8% for the Period and this was attributable to management efficiency, proven strategy execution capabilities and strong product cycles of most of our brands. On the other hand, the gross margin of after-sales service remained stable with a slight decline of 1.9 p.p. in its gross profit margin to 49.6% during the Period.

New passenger vehicle sales

The Group has implemented a unique expansion strategy, "single-city, single-brand", which focuses on fast-growing 2nd to 4th tier cities with a well-balanced brand portfolio, focusing on luxury brands such as Lexus, BMW and Porsche and covering mid-to-high end brands including Toyota and Hyundai. Based on the proven track record, it is clear that under the aforementioned strategy, promising margins are achieved and the Group is capable to capture benefits from major brand product portfolio as well as demand from diverse range of customers.

For the six months ended 30 June 2017, The revenue from new passenger vehicle sales was RMB2,927.6 million, representing an increase of approximately 27.7% compared with RMB2,292.1 million during the same period of the previous year. In terms of volume, the Group sold 12,509 new vehicles in total, showing a YOY growth of approximately 11.5% (1H2016: 11,218 units). The promising result was driven by favorable market environment and strong product cycles for most of our brands. Luxury brands continued to be the major driver of revenue and volume growth. Porsche, BMW and Lexus have recorded strong growth in both revenue and volume.

MANAGEMENT DISCUSSION AND ANALYSIS

After-sales service

The market environment of 2nd to 4th tier cities is less competitive as the demand is strong with fragmented distribution of after-sales service providers, implying a vast market potential and possible better profitability. For the six months ended 30 June 2017, the after-sales service revenue amounted to RMB404.7 million, illustrating a significant rise of approximately 32.2% compared to the same period of last year. During the period, a total of 147,039 units was served, presenting YOY increase of approximately 21.5%, compared to 121,053 units from 1H2016.

Current network

As at 30 June 2017, there were 34 4S stores which operate in Beijing, Hebei, Hubei, Hunan, Jiangxi, Fujian, Guangdong and Gansu, including 32 subsidiary stores, a joint venture that is operated by us and an associate store.

ISSUE OF BONDS AND WARRANTS

There is no issue of bonds or warrants in the current period.

PLACING OF SHARES

There is no issue of placing of shares in the current 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 2017. 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.

STAFF TRAINING AND DEVELOPMENT

As at 30 June 2017, the Group had a total of 3,030 employees. The majority of whom are based in the PRC. In addition to offering competitive remuneration packages to employee, 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, which becomes one of key elements of attracting talents. The management team of the Group values satisfaction of employees, strives for creating a better working environment and career paths for employees.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2017.

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

PROSPECTS OF THE SECOND HALF OF 2017

Under the strong recovery since year 2016, the annual growth of 2017 is expected to resume a more stable and sustainable growth. Furthermore, with the promising BMW, Lexus and Porsche product cycles in the coming few years, the Group is expected to enjoy strong growth in sales volume and stable margins from these brands. With growing contribution of these luxury brands to the Group, which will ensure better revenue mix, the Group is confident about the profitability of the Group in the second half of 2017 and beyond.

Further to the prosperous new cars market, the growth of ownership of vehicles also implies an encouraging business environment for after-sales service market. According to the mentioned report by Mintel, the scale of after-sales market is forecasted to reach RMB1 trillion by 2017 and 4S store is ranked as top choice for maintenance and repair of vehicles, showing a vast market potential to be seized. Furthermore, with the maturity of the younger store portfolio of the Group and the more favorable competitive landscape of 2nd to 4th tier cities, the contribution of the aftersales segment will continue to increase as a percentage of total revenue of the Group. With these favorable conditions, the Group is optimistic towards the long term development of the aftersales segment of the group.

Looking into the second half of 2017 and 2018, the Group will continue to expand its network in accordance with its long standing strategies of developing “single city, single brand” stores in 2nd to 4th tier cities with a strong focus on luxury brands. We have established promising future project pipeline based on these stated strategies to ensure steady strong growth going forward.

Besides planning for sustainable expansion, the Group will also maintain its strong focus on inventory control and operation efficiency through employing tailor-made ERP system which performs accurate data analysis and evaluation. Further, the Group would continuously improve management efficiency to maintain healthy balance sheet while capturing the upcycle of the industry and most of our major brands to maximize profitability.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, 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 2017
		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:

- 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 hold 754.4 million Shares and by virtue of the SFO, Mr. Ye Fan is deemed to be interested in the Shares of Apex Sail.*
- During the year ended 31 December 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.*

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 2017 were as follows:

Name of Director	Date of grant	Exercisable period	Number of	Exercise price	As at 30 June 2017	Approximate
			shares subject to the outstanding options as at 01.01.2017		Number of shares subject to outstanding options	
Mr. Ye Tao	20.01.2014	01.01.2015–12.11.2023	500,000	1.80	500,000	0.05%
	20.01.2014	01.01.2016–2.11.2023	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 2017, 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.

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

As at 30 June 2017, 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 and 3)	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%
FIL Limited	Interest in a controlled corporation	97,314,000	8.94%
Fidelity China Special Situations PLC	Beneficial owner	97,314,000	8.94%
Everbright Securities Company Limited ⁽³⁾	Interest in a controlled corporation	355,838,151	32.70%
Sun Hung Kai Financial Group Limited ⁽³⁾	Interest in a controlled corporation	355,838,151	32.70%
PA Venture Opportunity IV Limited ^{(3) and (4)}	Person having a security interest in shares	355,838,151	32.70%
	Other	24,143,698	2.22%

OTHER INFORMATION

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Pacific Alliance Asia Opportunity Fund LP, ^{(3) and (4)}	Interest in a controlled corporation	379,981,849	34.92%
Pacific Alliance Group Limited ^{(3) and (4)}	Interest in a controlled corporation	379,981,849	34.92%
Pacific Alliance Investment Management Limited ^{(3) and (4)}	Interest in a controlled corporation	379,981,849	34.92%
PAG Holdings Limited ^{(3) and (4)}	Interest in a controlled corporation	379,981,849	34.92%
Asian Equity Special Opportunities Portfolio Master Fund Limited ^{(3) and (4)}	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 ^{(3) and (4)}	Investment Manager	397,088,067	36.49%
Ruan David Ching-chi ^{(3) and (4)}	Interest in a controlled corporation	397,088,067	36.49%

Notes:

- 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.*
- 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.*

OTHER INFORMATION

- (3) *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.*
- (4) *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 95.24% by Mr. Ruan David Ching-chi), 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 2017 in the register to be kept by the Company under Section 336 of the SFO.

SHORT POSITIONS IN SHARES AND UNDERLYING SHARES IN THE COMPANY

As at 30 June 2017, 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 2017, 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.

OTHER INFORMATION

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.

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	Granted during The period	Lapsed during The period	Number	Weighted average closing price of shares immediately before the date(s) on which the options were exercised HK\$
					of shares subject to the outstanding options as at 31.12.2016			of Shares subject to the outstanding options as at 30.06.2017	
Category ¹ :									
Directors									
Mr. Ye Tao	2014	20.01.2014	01.01.2015–12.11.2023	1.80	500,000	–	–	500,000	–
	Options	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	20.01.2014	01.01.2015–12.11.2023	1.80	537,500	–	–	537,500	–
	Options	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	20.01.2014	01.01.2015–12.11.2023	1.80	1,330,000	–	–	1,330,000	–
	Options	20.01.2014	01.01.2016–12.11.2023	1.80	1,330,000	–	–	1,330,000	–
		20.01.2014	01.01.2017–12.11.2023	1.80	1,330,000	–	–	1,330,000	–
		20.01.2014	01.01.2018–12.11.2023	1.80	1,330,000	–	–	1,330,000	–
Total for Employees					5,320,000	–	–	5,320,000	–
All Category					9,470,000	–	–	9,470,000	–

OTHER INFORMATION

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

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 2017. 2,500,000 warrants were exercised by Asian Equity Special Opportunities Portfolio Master Fund Limited (the "Warrantholder") pursuant to the warrant instrument issued by the Company dated 9 March 2015 on 25 July 2017 and 2,500,000 shares of the Company were issued to the Warrantholder on the same day.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 2017.

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 24 August 2017 to review the unaudited interim financial report for the six months ended 30 June 2017. KPMG, the Group’s external auditor, has carried out a review of the interim financial report for the six months ended 30 June 2017 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to declare an interim dividend of RMB0.035 per ordinary share for the six months ended 30 June 2017 (2016: nil). The interim dividend will be paid in cash. Based on the number of shares in issue as at the date of this report, a total amount of dividend of approximately RMB38.2 million will be distributed.

The interim dividend will be distributed to shareholders of the Company whose names appear on the register of members of the Company at the close of business on Friday, 15 September 2017. The register of members of the Company will be closed from Thursday, 14 September 2017 to Friday, 15 September 2017 (both days inclusive), during such period no share transfer will be registered. To qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Wednesday, 13 September 2017. The interim dividend will be payable on or about Friday, 29 September 2017.

REPORT ON REVIEW OF INTERIM FINANCIAL REPORT



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

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 22 to 54 which comprises the consolidated statement of financial position of China MeiDong Auto Holdings Limited as of 30 June 2017 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 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

24 August 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Revenue	3 & 4	3,332,259	2,598,288
Cost of sales	6	(2,960,979)	(2,345,229)
Gross profit		371,280	253,059
Other income	5	32,671	23,331
Distribution costs		(125,883)	(92,651)
Administrative expenses		(112,349)	(78,481)
Profit from operations		165,719	105,258
Finance costs	6(a)	(28,634)	(28,375)
Share of profits of an associate		87	1,835
Share of profits of a joint venture		12,471	9,951
Profit before taxation	6	149,643	88,669
Income tax	7	(40,895)	(24,360)
Profit and total comprehensive income for the period		108,748	64,309
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		107,940	62,533
Non-controlling interests		808	1,776
Profit and total comprehensive income for the period		108,748	64,309
Earnings per share	8		
Basic and diluted (RMB cents)		9.92	5.75

The notes on pages 28 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited

		At 30 June 2017	At 31 December 2016
	<i>Note</i>	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	9	638,719	621,525
Lease prepayments		99,004	100,478
Intangible assets		11,338	12,454
Interest in an associate		18,920	18,833
Interest in a joint venture		27,183	53,443
Other non-current assets		21,507	20,327
Deferred tax assets		9,031	10,084
		825,702	837,144
Current assets			
Inventories	10	786,076	483,940
Trade and other receivables	11	466,489	497,790
Pledged bank deposits	12	129,398	346,825
Cash and cash equivalents	13	394,703	426,169
		1,776,666	1,754,724
Current liabilities			
Loans and borrowings	14	665,114	614,708
Trade and other payables	15	827,099	878,547
Corporate bonds	16	97,771	43,531
Income tax payables		12,129	20,794
		1,602,113	1,557,580
Net current assets		174,553	197,144
Total assets less current liabilities		1,000,255	1,034,288

The notes on pages 28 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited

		At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
	<i>Note</i>		
Non-current liabilities			
Loans and borrowings	14	61,917	75,635
Corporate bonds	16	–	50,723
Deferred tax liabilities		2,947	3,110
Other non-current liabilities		1,321	2,530
		66,185	131,998
NET ASSETS		934,070	902,290
EQUITY	17		
Share capital		85,529	85,529
Reserves		816,639	778,955
Total equity attributable to equity shareholders of the Company		902,168	864,484
Non-controlling interests		31,902	37,806
TOTAL EQUITY		934,070	902,290

Approved and authorised for issue by the board of directors on 24 August 2017.

Ye Fan

Director

Ye Tao

Director

The notes on pages 28 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – 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	(340)	(3,094)	340	-	-	-	(3,094)	-	(3,094)
Equity settled share-based transactions (Note 17(b))	-	-	-	405	-	-	405	-	405
Balance at 30 June 2016 and 1 July 2016	85,529	322,312	986	(38,390)	65,657	338,452	774,546	30,673	805,219
Profit and total comprehensive income for the period	-	-	-	-	-	89,524	89,524	3,133	92,657
Capital injection by non-controlling interests	-	-	-	-	-	-	-	4,000	4,000
Appropriation to reserves	-	-	-	-	23,880	(23,880)	-	-	-
Equity settled share-based transactions	-	-	-	414	-	-	414	-	414
Balance at 31 December 2016	85,529	322,312	986	(37,976)	89,537	404,096	864,484	37,806	902,290

The notes on pages 28 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – 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 2017	85,529	322,312	986	(37,976)	89,537	404,096	864,484	37,806	902,290
Changes in equity for the six months ended 30 June 2017									
Profit and total comprehensive income for the period	-	-	-	-	-	107,940	107,940	808	108,748
Acquisition of non-controlling interest	-	-	-	-	-	(788)	(788)	(6,712)	(7,500)
Dividends approved in respect of the previous years (Note 17(a))	-	(696,40)	-	-	-	-	(696,40)	-	(696,40)
Equity settled share-based transactions (Note 17(b))	-	-	-	172	-	-	172	-	172
Balance at 30 June 2017	85,529	252,672	986	(37,804)	89,537	511,248	902,168	31,902	934,070

The notes on pages 28 to 54 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 – unaudited

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Operating activities			
Cash generated from operations		133,131	216,030
Income tax paid		(48,671)	(28,222)
Net cash generated from operating activities		84,460	187,808
Investing activities			
Payment for the purchase of property, plant and equipment		(73,934)	(61,968)
Dividends received from a joint venture		38,731	–
Proceeds from disposal of property, plant and equipment		19,837	11,638
Increase in deposits with a bank		–	(14,500)
Other cash flows arising from investing activities		1,314	2,210
Net cash used in investing activities		(14,052)	(62,620)
Financing activities			
Proceeds from loans and borrowings		448,713	416,629
Repayment of loans and borrowings		(456,348)	(435,995)
Dividends paid to equity shareholders	17(a)	(69,640)	(50,054)
Interest paid		(21,900)	(22,098)
Payment for repurchase of own shares		–	(3,094)
Acquisition of non-controlling interests in a subsidiary		(7,500)	–
Advances from related parties		4,801	7,311
Repayment of advances from a related party		–	(4,800)
Net cash used in financing activities		(101,874)	(92,101)
Net (decrease)/increase in cash		(31,466)	33,087
Cash at 1 January	13	426,169	253,915
Cash at 30 June	13	394,703	287,002

The notes on pages 28 to 54 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 24 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of 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 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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 20.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

4 REVENUE

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Sales of passenger vehicles	2,927,564	2,292,096
After-sales services	404,695	306,192
	3,332,259	2,598,288

5 OTHER INCOME

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Commission income	20,343	16,481
Bank interest income	1,104	2,207
Net gain on disposal of property, plant and equipment	6,398	2,170
Net foreign exchange gain/(loss)	4,503	(252)
Others	323	2,725
	32,671	23,331

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

6 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on:		
	– loans and borrowings	14,695	14,023
	– corporate bonds	10,418	10,239
	Total borrowing cost	25,113	24,262
	Other finance costs (i)	3,521	4,113
	Total finance costs	28,634	28,375

		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
(b)	Staff costs:		
	Salaries, wages and other benefits	142,154	95,927
	Equity settled share-based payment expenses (ii)	172	405
	Contributions to defined contribution retirement plans (iii)	6,747	3,806
		149,073	100,138

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

6 PROFIT BEFORE TAXATION (continued)

		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
(c)	Other items:		
	Cost of inventories	2,918,040	2,320,369
	Write down of inventories	8,293	–
	Depreciation	31,755	26,404
	Amortisation of lease prepayments	1,474	1,474
	Amortisation of intangible assets	1,116	409
	Operating lease charges	19,207	12,578
	Net foreign exchange (gain)/loss	(4,503)	252

- (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 RMB172,000 for the six months ended 30 June 2017 in relation to share options granted to certain employees of the Group pursuant to a share option scheme (six months ended 30 June 2016: RMB405,000) (see note 17(b)).
- (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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

7 INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax:		
Provision for PRC income tax for the period	40,005	24,096
Deferred tax:		
Reversal of temporary differences	890	264
	40,895	24,360

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.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit attributable to equity shareholders of the Company of RMB107,940,000 (six months ended 30 June 2016: RMB62,533,000) and the weighted average of 1,088,130,000 ordinary shares in issue (six months ended 30 June 2016: 1,088,383,000 shares) during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2017	2016
Issued ordinary shares at 1 January	1,088,130,000	1,092,170,000
Effect of shares repurchased	–	(3,787,000)
Weighted average number of ordinary shares at 30 June	1,088,130,000	1,088,383,000

The impact of share options and warrants to earnings per share was anti-dilutive for the six months ended 30 June 2017 and the six months ended 30 June 2016 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 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Net book value, at 1 January	621,525	550,985
Additions	62,388	153,773
Disposals	(25,471)	(42,993)
Depreciation charge for the period/year	(31,755)	(55,228)
Written back on disposals	12,032	14,988
At 30 June/31 December	638,719	621,525

10 INVENTORIES

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Motor vehicles	731,230	435,557
Others	54,846	48,383
	786,076	483,940

- (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	
	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	2,918,040	2,320,369
Write down of inventories	8,293	-
	2,926,333	2,320,369

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 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 month	29,892	70,095
1 to 2 months	3,927	1,314
2 to 3 months	301	140
Over 3 months	3,547	3,442
Trade debtors	37,667	74,991
Prepayments	105,450	123,132
Other receivables and deposits	317,423	295,857
Amounts due from third parties	460,540	493,980
Amounts due from related parties (note 21(c))	5,949	3,810
Trade and other receivables	466,489	497,790

Credit sales are offered in rare cases subject to senior 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 PLEDGED BANK DEPOSITS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Restricted bank deposits pledged in respect of loans and borrowings	20,157	69,837
Restricted bank deposits pledged in respect of bills payable	109,241	276,988
	129,398	346,825

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

13 CASH AND CASH EQUIVALENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cash at banks and in hand	394,703	426,169

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

14 LOANS AND BORROWINGS

(a) At 30 June 2017, loans and borrowings were repayable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year or on demand	665,114	614,708
After 1 year but within 2 years	3,200	23,200
After 2 years but within 5 years	58,717	52,435
	61,917	75,635
	727,031	690,343

(b) At 30 June 2017, loans and borrowings were secured as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Unsecured bank loans	16,431	33,252
Unsecured borrowings from other financial institutions	34,720	36,517
Unsecured borrowings from a related party	34,717	26,835
	85,868	96,604
Secured bank loans	324,407	350,091
Secured borrowings from other financial institutions	316,756	243,648
	641,163	593,739
	727,031	690,343

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 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	429,372	495,680
Over 3 months but within 6 months	26,916	58,888
Total trade payables and bills payable	456,288	554,568
Receipts in advance	279,960	226,833
Other payables and accruals	85,163	96,010
Amounts due to third parties	821,411	877,411
Amounts due to related parties (note 21(c))	5,688	1,136
Trade and other payables	827,099	878,547

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

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(c)) 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.

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 2017, the balance of corporate bonds represented initial fair value of RMB67,126,000 (31 December 2016: RMB67,126,000) and the amortised interests of RMB33,087,000 (31 December 2016: RMB 29,668,000), deducted by the corresponding interests of RMB2,442,000 (31 December 2016: RMB 2,540,000) at the nominal interest rate of 9% on the principal amount of the corporate bonds, which was recorded in trade and other payables.

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

- (i) *Dividends payable to equity shareholders of the Company attributable to the interim period.*

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interim dividend declared after the interim period, of RMB3.5 cents per ordinary share (six months ended 30 June 2016: nil)	38,172	–

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

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB6.4 cents per ordinary share (six months ended 30 June 2016: RMB4.6 cents per ordinary share)	69,640	50,054

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) 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.

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 2017 (six months ended 30 June 2016: nil).

The Group recorded equity settled share-based payment expenses of RMB172,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB405,000) (see note 6(b)(ii)).

(c) 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 RMB 127,000 was credited to capital reserve during the six months ended 30 June 2015.

No warrants were exercised during the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

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 2017 and 31 December 2016 RMB'000	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 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: 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	17% (2016: 18%)	17% (2016: 18%)

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 2017, 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% (2016: 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 2016 and 30 June 2017	—

(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 2017 and 31 December 2016.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for	19,417	–
Authorised but not contracted for	17,607	7,050
	37,024	7,050

20 CONTINGENT LIABILITIES

As at 30 June 2017, 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 RMB178,000,000 (31 December 2016: RMB178,000,000) and the financial facility utilised by the related parties amounted to RMB63,451,000 as at 30 June 2017 (31 December 2016: RMB43,381,000) (see note 21(e)).

As at 30 June 2017, the directors do not consider it probable that a claim will be made under the above guarantee.

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 2017, 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
Wang Shenwu 王慎武	Non-controlling shareholder of subsidiaries
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
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

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	
	2017 RMB'000	2016 RMB'000
Rental expense:		
– Dadong Group	1,170	228

(b) Non-recurring transactions

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Sales of passenger vehicles:		
– Dongguan Meidong	6,090	10,205
Purchases of passenger vehicles:		
– Dongguan Meidong	6,295	13,519
Advance from related parties:		
– Ye Fan	4,801	4,911
– Shenzhen Tengjin	–	2,400
	4,801	7,311
Repayment of advance from a related party:		
– Ye Fan	–	4,800
Loans and borrowings from a related party:		
– Apex Sail (i)	8,679	–

- (i) Unsecured loan and borrowing of HK\$10,000,000 (equivalent to RMB8,679,000) with three years maturity period was borrowed by MeiDong HK from Apex Sail during the six months ended 30 June 2017 (six months ended 30 June 2016: nil), which bears an annual interest rate at 6%.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties

At 30 June 2017, the Group had the following balances with related parties:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Other receivables due from:		
– Dongguan Meidong	5,949	3,810
Other payables due to:		
– Dongguan Meidong	861	426
– Dadong Group	–	684
– Ye Fan	4,827	26
	5,688	1,136
Loans and borrowings due to:		
– Apex Sail (note 21(b)(i))	34,717	26,835

Except for loans and borrowings due to Apex Sail, the amounts due from/ to related parties are unsecured, interest free and have no fixed terms of repayment.

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(Expressed in RMB unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(d) Guarantees and securities issued by related parties

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Guarantees issued by a related party in respect of loans and borrowings borrowed by the Group:		
– Ye Fan (i)	322,485	285,363
Guarantees issued by a related party in respect of bills issued by the Group:		
– Ye Fan	93,409	221,689
Guarantees issued by related parties in respect of corporate bonds issued by the Group:		
– Ye Fan/Ye Tao (ii)	97,771	94,254
Securities provided by a related party in respect of corporate bonds issued by the Group:		
– Apex Sail (ii)	97,771	94,254

- (i) Loans and borrowings of RMB322,485,000 were guaranteed by Mr. Ye Fan as at 30 June 2017 (31 December 2016: RMB285,363,000).
- (ii) As of 30 June 2017, corporate bonds of RMB97,771,000 (31 December 2016: RMB94,254,000) 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
	2017	2016
	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	98,000	98,000
	178,000	178,000

(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	
	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	2,478	2,261
Equity compensation benefits	99	249
	2,577	2,510

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

22 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Exercise of warrants

On 25 July 2017, 2,500,000 warrant were exercised by a warrant holder and 2,500,000 ordinary shares were issued by the Company at an exercise price of RMB1.883 per warrant share to the warrant holder. The net proceeds from the issuance of ordinary shares upon exercise of warrants amounted to approximately RMB4,708,000.

(b) Interim dividend

After the end of the reporting period, the directors declared an interim dividend. Further details are disclosed in note 17(a).

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

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

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

HKFRS 15, Revenue from contracts with customers

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

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

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

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

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

HKFRS 16, Leases

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

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

HKFRS 16, Leases *(continued)*

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. At 30 June 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB458,052,000 for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

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