



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 **2019**

CONTENTS

Corporate Information	2
Management Discussion and Analysis	4
Other Information	9
Report on Review of Interim Financial Report	21
Consolidated Statement of Comprehensive Income	23
Consolidated Statement of Financial Position	24
Consolidated Statement of Changes In Equity	26
Condensed Consolidated Cash Flow Statement	28
Notes to the Unaudited Interim Financial Report	30



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

YE Fan (*Chairman*)

YE Tao (*Chief Executive Officer*)

LIU Xuehua

(*retired with effect from 25 March 2019*)

LUO Liuyu

(*appointed on 25 March 2019*)

Independent Non-Executive Directors

CHEN Guiyi

WANG, Michael Chou

JIP Ki Chi

AUTHORISED REPRESENTATIVE

YE Tao

COMPANY SECRETARY

WONG Cheung Ki Johnny, *FCPA, ACIS, ACS*

AUDIT COMMITTEE

JIP Ki Chi (*Chairman*)

WANG, Michael Chou

CHEN Guiyi

REMUNERATION COMMITTEE

WANG, Michael Chou (*Chairman*)

CHEN Guiyi

JIP Ki Chi

NOMINATION COMMITTEE

YE Fan (*Chairman*)

WANG, 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 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 54, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation
Limited
Bank of China (Hong Kong) Limited

STOCK CODE

1268

COMPANY'S WEBSITE

www.meidongauto.com

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Despite various uncertainties in the first half of 2019, the macroeconomic environment and consumption demand of the PRC maintained a steady growth. The GDP and total retail sales of social consumer goods increased by 6.3% and 8.4% year-on-year (“yoy”) respectively. The automobile industry continued to record a negative growth in the first half of 2019. According to the statistics of China Association of Automobile Manufacturers, the overall passenger vehicle sales of the PRC from January to June 2019 decreased by 14.0% yoy to a total of 10.127 million units. The sales of basic passenger cars (“sedans”) decreased by 12.9% yoy to 4.962 million units while that of sports utility vehicles (“SUVs”) decreased by 13.4% yoy to 4.301 million units. The luxury car market maintained steady growth momentum despite the downturn of overall market. The total sales of 12 luxury car brands increased 7.2% yoy to over 1.4 million units in the first half of 2019.

RESULTS ANALYSIS AND FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019 (the “Period”), the Group recorded a revenue of approximately RMB6,843.0 million (2018 1H: RMB4,346.7 million), representing an increase of 57.4% yoy. The revenue from new passenger vehicles sales increased by 59.2% yoy to approximately RMB6,015.2 million (2018 1H: RMB3,779.5 million), accounting for approximately 87.9% (2018 1H: 86.9%) of the total revenue. The revenue from after-sales services increased by 45.9% yoy to approximately RMB827.9 million (2018 1H: approximately RMB567.3 million), accounting for approximately 12.1% (2018 1H: 13.1%) of the total revenue.

Cost of Sales

Cost of sales increased by 58.8% from RMB3,872.1 million for the first half of 2018 to RMB6,150.5 million for the first half of 2019. The increase in cost of sales was resulted from the growth of the two major businesses of the Group, namely new passenger vehicles sales and after-sales services. The costs of sales for new passenger vehicles and after-sales services increased by 59.7% and 48.9% respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

During the Period, the Group's gross profit increased by 45.9% from RMB474.6 million for the first half of 2018 to RMB692.5 million, which was driven by growth in overall revenue. Gross profit margin slightly dropped by 0.8 percentage points to approximately 10.1%, mainly due to a margin pressure on new passenger vehicles sales. The gross margin of new vehicles sales slightly fell to 5.0%. The gross profit margin of after-sales services remained steady at 47.4%.

Distribution Expenses and Administrative Expenses

During the Period, distribution cost amounted to RMB213.7 million, representing an increase of approximately 26.3% as compared to RMB169.2 million for the same period of last year, accounting for 3.1% of the total revenue (2018 1H: 3.9%). Administrative expenses amounted to RMB184.8 million, representing an increase of approximately 29.3% as compared to RMB143.0 million for the same period of last year, accounting for 2.7% of the total revenue (2018 1H: 3.3%).

Finance Cost

During the Period, finance cost amounted to RMB57.7 million, accounting for 0.8% of the total revenue.

Profit for the Period Attributable to Shareholders

Leveraging on its accurate and highly effective information management capabilities, the Group was able to maintain a high operational efficiency amidst a slowdown of the development of the overall automobile market. Coupled with effective cost control initiatives, the Group's profit for the Period attributable to shareholders increased by 49.6% to RMB235.8 million (2018 1H: RMB157.6 million).

Dividend

The Board of the Company recommended an interim dividend of RMB0.061 per ordinary share for the six months ended 30 June 2019 (2018 1H: RMB0.041 per ordinary share).

MANAGEMENT DISCUSSION AND ANALYSIS

A Joint Venture

For the six months ended 30 June 2019, share of profit of a joint venture amounted to RMB18.5 million, representing an increase of approximately 42.9% as compared to the same period of last year.

Taxation

For the six months ended 30 June 2019, the Group's income tax expenses amounted to RMB80.1 million, representing an increase of approximately 41.7% as compared to RMB56.5 million of last year. The increase in income tax expenses was mainly due to the increase in the total revenue.

New Passenger Vehicles Sales

During the Period, the Group was able to sustain its high growth through new-store expansion and same store growth. Coupled with the effective proven, luxury brand-focused strategy of "Single City Single Store", sales of new passenger vehicles in the first half of 2019 recorded a significant growth, with revenue of new passenger vehicle sales amounted to RMB6,015.2 million (2018 1H: RMB3,779.5 million), indicating an increase of approximately 59.2% as compared to the same period of last year. The luxury brands remains the major revenue source, accounting for 80.0% (2018 1H: 73.1%) of the new passenger vehicle sales. In the first half of 2019, BMW, Porsche and Lexus recorded sales of new passenger vehicles of approximately RMB2,364.5 million, RMB1,139.7 million and RMB1,302.9 million respectively, accounting for 39.3%, 18.9% and 21.7% of new passenger vehicles sales respectively. In terms of sales volume, the Group sold 21,966 new passenger vehicles in total, representing an increase of 40.9% yoy. Luxury brands remained as the major driver in sales, with sales of BMW, Porsche and Lexus amounting to 7,704 units, 1,531 units and 3,836 units respectively.

After-Sales Services

Revenue for the after-sales services was approximately RMB827.9 million, representing an increase of 45.9% (2018 1H: RMB567.3 million) compared to the same period of last year. The total number of vehicles served was 209,444, representing an increase of 22.6% yoy. The gross profit margin of after-sales services remained high and stable at 47.4%. The optimization of our brand portfolio in the after-sales services, where luxury brand accounted for 79.4% of revenue in after-sales service (2018 1H: 72.3%), is the main reason of the growth in after-sales service revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Current Network

The Group continued to implement its highly effective strategy of “Single City Single Store” for its luxury brands while expanding its distribution network. As of 30 June 2019, the Group had 54 self-operated stores in Beijing, Hebei, Hubei, Hunan, Jiangxi, Fujian, Guangdong, Gansu and Anhui, including a joint venture operated by the Group.

As at 30 June 2019, the number of stores operated by the Group is as follows:

Number of stores under operation	2018 1H	2019 1H	Change
Porsche	3	6	+3
BMW	15	23	+8
Lexus	10	11	+1
Toyota	11	12	+1
Hyundai	2	1	-1
Audi	—	1	+1
Total	41	54	+13

Financial Resources and Position

For the six months ended 30 June 2019, the Group’s loans and borrowings amounted to RMB1,184,298,000, representing an increase of approximately 1.0% as compared to RMB1,172,418,000 as at 31 December 2018. Short-term loans and borrowings amounted to approximately RMB1,008,898,000, and long-term loans and borrowings amounted to RMB175,400,000.

As at 30 June 2019, cash and cash equivalents and pledged bank deposits amounted to RMB1,498,978,000. Most of the cash and cash equivalents and pledged bank deposits were denominated in Renminbi and Hong Kong Dollars. As the Group’s businesses are conducted in the PRC, the Group does not expect exposure to any material foreign exchange risks.

MANAGEMENT DISCUSSION AND ANALYSIS

The operating and capital expenditure of the Group is funded by cash flow from our business, internal cash and financing agreements with banks and financing companies of automobile manufacturers. The Group has adequate financial resources to meet all contractual obligations and operating requirements.

Contingent Liabilities

As at 30 June 2019, one subsidiary of the Group issued financial guarantee to a non-bank financial institution in respect of financial facilities granted to Dongguan Meidong Automotive Service Co., Ltd (“Dongguan Meidong”) amounting to RMB80,000,000 (31 December 2018: RMB80,000,000). As at 30 June 2019, the financial facilities utilised by Dongguan Meidong amounted to RMB15,615,000 (31 December 2018: RMB9,154,000).

As at 30 June 2019, the directors do not consider it probable that a claim will be made under the above guarantees.

Prospects

Looking into the second half of 2019 and beyond, despite of the uncertainties in the domestic and global economies, as well as the PRC automobile market, with the continuous strong growth of luxury auto market and consumption upgrading in the PRC, the luxury car auto dealership market is still full of opportunities. The Group will continue to implement its stated strategy of focusing on luxury brands and single city single store expansion to further optimize revenue mix. We also target to further improve our operational efficiencies and data efficiencies to enhance customer services to ensure continuous improvement of our operation. Meanwhile, we will strive to maintain our current level of inventory turns to ensure healthy cash flow generation and strong balance sheet to support the long-term sustainable development of the Group.

We pay close attention to M&A opportunities in the industry. Our criteria for evaluating such opportunities include (1) familiar brands; (2) superior locations; and (3) reasonable considerations. We will continue to proactively yet prudently expand our network through greenfield projects and M&A projects, with the ultimate goal to maximize our investment return and maintain steady growth momentum.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, 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 (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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			Total interest in shares	Interest in underlying Shares pursuant to share options	Approximate percentage of shareholding as at 30 June 2019
		Personal interest shares	Family interest				
Mr. YE Fan ⁽¹⁾	Settlor of trust	—	754,400,000	754,400,000	—	65.25%	
Mr. YE Tao	Beneficial Owner	—	—	—	4,000,000	0.35%	
Ms. LIU Xuehua (retired with effect from 25 March 2019)	Beneficial Owner	2,150,000	—	2,150,000	2,150,000	0.37%	
Ms. LUO Liuyu (appointed on 25 March 2019)	Beneficial Owner	48,000	—	48,000	1,200,000	0.11%	

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 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.*

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 2019 were as follows:

Name of Director	Date of grant	Exercisable period	Exercisable price HK\$	Number of Shares subject to the	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of shares subject to the	Approximate percentage of shareholding
				outstanding options as at 01.01.2019				outstanding option as at 30.06.2019	
Mr. YE Tao	20.01.2014	01.01.2015–12.11.2023	1.80	500,000	—	—	—	500,000	0.04%
	20.01.2014	01.01.2016–12.11.2023	1.80	500,000	—	—	—	500,000	0.04%
	20.01.2014	01.01.2017–12.11.2023	1.80	500,000	—	—	—	500,000	0.04%
	20.01.2014	01.01.2018–12.11.2023	1.80	500,000	—	—	—	500,000	0.04%
	04.01.2018	04.01.2018–03.01.2028	2.58	500,000	—	—	—	500,000	0.04%
	04.01.2018	04.01.2019–03.01.2028	2.58	500,000	—	—	—	500,000	0.04%
	04.01.2018	04.01.2020–03.01.2028	2.58	500,000	—	—	—	500,000	0.04%
	04.01.2018	04.01.2021–03.01.2028	2.58	500,000	—	—	—	500,000	0.04%
Ms. LIU Xuehua (retired with effect from 25 March 2019)	20.01.2014	01.01.2015–12.11.2023	1.80	—	—	—	—	—	—
	20.01.2014	01.01.2016–12.11.2023	1.80	75,000	—	(75,000)	—	—	—
	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)	—	—	—
	04.01.2018	04.01.2018–03.01.2028	2.58	537,500	—	—	—	537,500	0.05%
	04.01.2018	04.01.2019–03.01.2028	2.58	537,500	—	—	—	537,500	0.05%
	04.01.2018	04.01.2020–03.01.2028	2.58	537,500	—	—	—	537,500	0.05%
	04.01.2018	04.01.2021–03.01.2028	2.58	537,500	—	—	—	537,500	0.05%

OTHER INFORMATION

Name of Director	Date of grant	Exercisable period	Exercisable price HK\$	Number of Shares subject to the			Cancelled/ Lapsed during the period	Number of shares subject to the outstanding option as at 30.06.2019	Approximate percentage of shareholding
				outstanding options as at 01.01.2019	Granted during the period	Exercised during the period			
Ms. LUO Liuyu (appointed on 25 March 2019)	20.01.2014	01.01.2015–12.11.2023	1.80	75,000	—	—	—	75,000	0.01%
	20.01.2014	01.01.2016–12.11.2023	1.80	75,000	—	—	—	75,000	0.01%
	20.01.2014	01.01.2017–12.11.2023	1.80	75,000	—	—	—	75,000	0.01%
	20.01.2014	01.01.2018–12.11.2023	1.80	75,000	—	—	—	75,000	0.01%
	04.01.2018	04.01.2018–03.01.2028	2.58	225,000	—	—	—	225,000	0.02%
	04.01.2018	04.01.2019–03.01.2028	2.58	225,000	—	—	—	225,000	0.02%
	04.01.2018	04.01.2020–03.01.2028	2.58	225,000	—	—	—	225,000	0.02%
	04.01.2018	04.01.2021–03.01.2028	2.58	225,000	—	—	—	225,000	0.02%
Total for directors				8,500,000	—	(1,150,000)	—	7,350,000	0.64%

Note:

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2019, none of the Directors 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 2019, 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⁾	Beneficial owner	754,400,000	65.25%
Apex Holdings ⁽¹⁾	Interest in a controlled corporation	754,400,000	65.25%
Fiducia Suisse SA ⁽¹⁾	Interest in a controlled corporation	754,400,000	65.25%
Mr. David Henry Christopher HILL ⁽¹⁾	Interest of a controlled corporation	754,400,000	65.25%
Mrs. Rebecca Ann HILL ⁽¹⁾	Interest of spouse	754,400,000	65.25%
Ms. HU Huanran ⁽²⁾	Interest of spouse	754,400,000	65.25%
Pandanus Partners L.P. ⁽³⁾	Interest in a controlled corporation	100,354,000	8.68%
Pandanus Associates Inc. ⁽³⁾	Interest in a controlled corporation	100,354,000	8.68%
FIL Limited ⁽³⁾	Interest in a controlled corporation	100,354,000	8.68%
FIL Investments Management (Hong Kong) Limited ⁽³⁾	Beneficial owner	100,354,000	8.68%

Note:

- (1) *Apex Sail is wholly owned by Apex Holdings. The entire issued share capital of Apex Holdings is wholly owned by Fiducia Suisse SA as the trustee of the Ye Family Trust. Fiducia Suisse SA is wholly owned by Mr. David Henry Christopher HILL and Ms. Rebecca Ann HILL is the wife of Mr. David Henry HILL. 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) *FIL Investments Management (Hong Kong) Limited is wholly-owned by FIL Limited, which is in turn owned as to 37.51% by Pandanus Partners L.P. which is wholly owned by Pandanus Associates Inc.. By virtue of the SFO, each of FIL Limited, Pandanus Associates and Pandanus Partners, L.P. is deemed to be interested in the 100,354,000 Shares of FIL Investments Management (Hong Kong) Limited.*

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 2019 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 2019, 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 2019, 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 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.

As at 30 June 2019, the Company had 16,010,000 share options outstanding under the SOS, representing approximately 1.38% 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
2018 Options	04.01.2018	04.01.2018-03.01.2028	HK\$2.58
	04.01.2018	04.01.2019-03.01.2028	HK\$2.58
	04.01.2018	04.01.2020-03.01.2028	HK\$2.58
	04.01.2018	04.01.2021-03.01.2028	HK\$2.58

OTHER INFORMATION

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

Name of Director	Options type	Date of grant	Exercisable period	Exercisable price HK\$	Number of Shares subject to the outstanding options as at 01.01.2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of shares subject to the outstanding option as at 30.06.2019	Weighted average closing price of shares immediately before the date 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	—	
	2018 Options	04.01.2018	04.01.2018—03.01.2028	2.58	500,000	—	—	—	500,000	—	
		04.01.2018	04.01.2019—03.01.2028	2.58	500,000	—	—	—	500,000	—	
		04.01.2018	04.01.2020—03.01.2028	2.58	500,000	—	—	—	500,000	—	
		04.01.2018	04.01.2021—03.01.2028	2.58	500,000	—	—	—	500,000	—	
	Ms. LIU Xuehua (retired with effect from 25 March 2019)	2014 Options	20.01.2014	01.01.2015—12.11.2023	1.80	—	—	—	—	—	—
			20.01.2014	01.01.2016—12.11.2023	1.80	75,000	—	(75,000)	—	—	4.60
			20.01.2014	01.01.2017—12.11.2023	1.80	537,500	—	(537,500)	—	—	4.60
			20.01.2014	01.01.2018—12.11.2023	1.80	537,500	—	(537,500)	—	—	4.60
2018 Options		04.01.2018	04.01.2018—03.01.2028	2.58	537,500	—	—	—	537,500	—	
		04.01.2018	04.01.2019—03.01.2028	2.58	537,500	—	—	—	537,500	—	
		04.01.2018	04.01.2020—03.01.2028	2.58	537,500	—	—	—	537,500	—	
		04.01.2018	04.01.2021—03.01.2028	2.58	537,500	—	—	—	537,500	—	

OTHER INFORMATION

Name of Director	Options type	Date of grant	Exercisable period	Exercisable price HK\$	Number of Shares outstanding options as at 01.01.2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of Shares outstanding options as at 30.06.2019	Weighted average closing price of shares immediately before the date on which the options were exercised	
										HK\$	
Ms. LUO Liuyu (appointed on 25 March 2019)	Options	20.01.2014	01.01.2015—12.11.2023	1.80	75,000	—	—	—	75,000	—	
		20.01.2014	01.01.2016—12.11.2023	1.80	75,000	—	—	—	75,000	—	
		20.01.2014	01.01.2017—12.11.2023	1.80	75,000	—	—	—	75,000	—	
		20.01.2014	01.01.2018—12.11.2023	1.80	75,000	—	—	—	75,000	—	
	Options	04.01.2018	04.01.2018—03.01.2028	2.58	225,000	—	—	—	225,000	—	
		04.01.2018	04.01.2019—03.01.2028	2.58	225,000	—	—	—	225,000	—	
		04.01.2018	04.01.2020—03.01.2028	2.58	225,000	—	—	—	225,000	—	
		04.01.2018	04.01.2021—03.01.2028	2.58	225,000	—	—	—	225,000	—	
	Total for Directors				8,500,000	—	(1,150,000)	—	7,350,000		
	Category2 Employees	Options	20.01.2014	01.01.2015—12.11.2023	1.80	832,000	—	(362,500)	—	470,000	4.60
			20.01.2014	01.01.2016—12.11.2023	1.80	832,000	—	(362,500)	—	470,000	4.60
			20.01.2014	01.01.2017—12.11.2023	1.80	832,000	—	(362,500)	—	470,000	4.60
20.01.2014			01.01.2018—12.11.2023	1.80	832,000	—	(362,500)	—	470,000	4.60	
Options		04.01.2018	04.01.2018—03.01.2028	2.58	1,707,500	—	—	(12,500)	1,695,000	—	
		04.01.2018	04.01.2019—03.01.2028	2.58	1,707,500	—	—	(12,500)	1,695,000	—	
		04.01.2018	04.01.2020—03.01.2028	2.58	1,707,500	—	—	(12,500)	1,695,000	—	
		04.01.2018	04.01.2021—03.01.2028	2.58	1,707,500	—	—	(12,500)	1,695,000	—	
Total for Employees					10,160,000	—	(1,450,000)	(50,000)	8,660,000		
All Category					18,660,000	—	(2,600,000)	(50,000)	16,010,000		

Notes:

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

OTHER INFORMATION

ISSUE OF BONDS AND WARRANTS

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

PLACING OF SHARES

There is no issue or 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 2019. 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 2019, the Group had a total of 4,433 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.

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 2019.

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

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 2019.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the six months ended 30 June 2019.

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 2019.

OTHER INFORMATION

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 21 August 2019 and the Audit Committee has reviewed the unaudited interim financial report for six months ended 30 June 2019. KPMG, the Group’s external auditor, has carried out a review of the interim financial report for the six months ended 30 June 2019 in accordance with the 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 RMB0.061 per ordinary share for the six months ended 30 June 2019 (2018: RMB0.041 per ordinary share). The interim dividend will be paid in cash. Based on the number of shares in issue as at the date of this announcement, a total amount of dividend of approximately RMB70.525 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 Thursday, 21 November 2019. The register of members of the Company will be closed from Wednesday, 20 November 2019 to Thursday, 21 November 2019 (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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 19 November 2019. The interim dividend will be payable on or about Thursday, 5 December 2019.

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 23 to 64 which comprises the consolidated statement of financial position of China MeiDong Auto Holdings Limited as of 30 June 2019 and the related consolidated statement of comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance 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 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 August 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June	
		2019	2018
		RMB'000	(Note) RMB'000
Revenue	3	6,843,012	4,346,746
Cost of sales	5	(6,150,481)	(3,872,115)
Gross profit		692,531	474,631
Other income	4	64,236	68,506
Distribution costs		(213,654)	(169,218)
Administrative expenses		(184,849)	(142,999)
Profit from operations		358,264	230,920
Finance costs	5(a)	(57,685)	(26,725)
Share of profits of a joint venture		18,506	12,950
Profit before taxation	5	319,085	217,145
Income tax	6	(80,053)	(56,500)
Profit for the period		239,032	160,645
Other comprehensive income for the period		—	—
Profit and total comprehensive income for the period		239,032	160,645
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		235,751	157,586
Non-controlling interests		3,281	3,059
Profit and total comprehensive income for the period		239,032	160,645
Earnings per share	7		
Basic (RMB cents)		20.43	13.75
Diluted (RMB cents)		20.30	13.67

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 30 to 64 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – unaudited

	Note	At 30 June 2019 RMB'000	At 31 December 2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment	8	949,708	857,929
Right-of-use assets	9	815,146	—
Lease prepayments		—	117,514
Intangible assets		67,153	69,275
Interest in a joint venture		29,898	43,676
Other non-current assets		64,023	48,637
Deferred tax assets		53,960	25,260
		1,979,888	1,162,291
Current assets			
Inventories	10	715,138	838,856
Trade and other receivables	11	881,220	889,183
Pledged bank deposits	12	436,708	417,365
Cash and cash equivalents	13	1,062,270	866,821
		3,095,336	3,012,225
Current liabilities			
Loans and borrowings	14	1,008,898	1,028,868
Trade and other payables	15	1,566,053	1,549,809
Income tax payables		59,462	37,317
Lease liabilities	2(d)	82,634	—
		2,717,047	2,615,994
Net current assets			
		378,289	396,231
Total assets less current liabilities			
		2,358,177	1,558,522
Non-current liabilities			
Loans and borrowings	14	175,400	143,550
Deferred tax liabilities		12,883	14,736
Lease liabilities	2(d)	704,694	—
		892,977	158,286
NET ASSETS			
		1,465,200	1,400,236

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – unaudited

	Note	At 30 June 2019 RMB'000	At 31 December 2018 (Note) RMB'000
EQUITY	16		
Share capital		91,201	90,978
Reserves		1,356,340	1,288,442
Total equity attributable to equity shareholders of the Company		1,447,541	1,379,420
Non-controlling interests		17,659	20,816
TOTAL EQUITY		1,465,200	1,400,236

Approved and authorised for issue by the board of directors on 21 August 2019.

YE Fan
Director

YE Tao
Director

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 30 to 64 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 – 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 2018	86,585	239,591	986	(40,237)	135,861	632,771	1,055,557	380,538	1,095,615
Changes in equity for the six months ended 30 June 2018									
Profit and total comprehensive income for the period	—	—	—	—	—	157,586	157,586	3,059	160,645
Changes in ownership interests in a subsidiary without change in control	—	—	—	—	—	7,837	7,837	1,163	9,000
Dividends declared and paid (Note 16(f))	—	(10,179)	—	—	—	—	(10,179)	—	(10,179)
Dividends paid to non-controlling interests (Note 16(f))	—	—	—	—	—	—	—	(4,577)	(4,577)
Equity settled share-based transactions (Note 16(f))	—	—	—	4,029	—	—	4,029	—	4,029
Issue of ordinary shares upon exercise of share options (Note 16(f))	142	3,431	—	(1,004)	—	—	2,549	—	2,549
Issue of ordinary shares upon exercise of warrants	4,172	100,987	—	(10,494)	—	—	94,665	—	94,665
Balance at 30 June 2018 and 1 July 2018	90,889	242,230	986	(47,716)	135,861	798,194	1,220,444	377,038	1,258,147
Profit and total comprehensive income for the period	—	—	—	—	—	205,343	205,343	(2,534)	200,809
Changes in ownership interests in a subsidiary without change in control	—	—	—	—	—	(2,559)	(2,559)	(2,778)	(5,337)
Appropriation to reserves	—	—	—	—	68,195	(68,195)	—	—	—
Dividends declared and paid (Note 16(f))	—	(47,259)	—	—	—	—	(47,259)	—	(47,259)
Dividends paid to non-controlling interests (Note 16(f))	—	—	—	—	—	—	—	(11,575)	(11,575)
Equity settled share-based transactions (Note 16(f))	—	—	—	2,039	—	—	2,039	—	2,039
Issue of ordinary shares upon exercise of share options (Note 16(f))	79	1,842	—	(509)	—	—	1,412	—	1,412
Balance at 31 December 2018 (Note)	90,978	196,813	986	(46,796)	204,056	932,783	1,379,420	208,816	1,400,236

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 – unaudited

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve		PRC		Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
			Share RMB'000	reserve RMB'000	Capital reserves RMB'000	statutory reserves RMB'000				
Balance at 1 January, as previously reported	90,978	196,813	986	(46,196)	204,056	932,783	1,379,420	20,816	1,400,236	
Impact of change in accounting policy (Note 2)	—	—	—	—	—	(70,655)	(70,655)	(1,202)	(71,857)	
Adjusted balance at 1 January 2019	90,978	196,813	986	(46,196)	204,056	862,128	1,308,765	19,614	1,328,379	
Profit and total comprehensive income for the period	—	—	—	—	—	235,751	235,751	3,281	239,032	
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	3,000	3,000	
Acquisition of non-controlling interests	—	—	—	—	—	(3,691)	(3,691)	(5,309)	(9,000)	
Dividends approved in respect of the previous years (Note 16(a))	—	(98,157)	—	—	—	—	(98,157)	—	(98,157)	
Dividends paid to non-controlling interests (Note 16(a))	—	—	—	—	—	—	—	(2,927)	(2,927)	
Equity settled share-based transactions (Note 16(b))	—	—	—	854	—	—	854	—	854	
Issue of ordinary shares upon exercise of share options (Note 16(b))	223	5,310	(15,154)	—	—	—	4,019	—	4,019	
Balance at 30 June 2019	91,201	103,966	986	(46,856)	204,056	1,094,188	1,447,541	17,659	1,465,200	

The notes on pages 30 to 64 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 – unaudited

	Six months ended 30 June		
	Note	2019	2018
		RMB'000	RMB'000
Operating activities			
Cash generated from operations		518,147	161,421
Income tax paid		(64,508)	(68,141)
Net cash generated from operating activities		453,639	93,280
Investing activities			
Payment for the purchase of property, plant and equipment		(251,222)	(136,635)
Payment for purchase of lease prepayments		—	(23,402)
Dividends received from an associate		—	12,497
Dividends received from a joint venture		32,284	—
Proceeds from disposal of property, plant and equipment		60,990	29,512
Proceeds from disposal of an associate		—	19,850
Net cash flow from business combination		(14,824)	—
Other cash flows arising from investing activities		2,294	3,635
Net cash used in investing activities		(170,478)	(94,543)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June	
		2019	2018
		RMB'000	RMB'000
Financing activities			
Capital element of lease rentals paid	2(e)	(21,919)	—
Interest element of lease rentals paid	2(e)	(26,009)	—
Proceeds from loans and borrowings		1,065,048	588,510
Repayment of loans and borrowings		(1,073,287)	(394,737)
Dividends paid to equity shareholders	16(a)	—	(101,779)
Dividends paid to non-controlling interests	16(a)	(2,927)	(4,577)
Proceeds from exercise of share options	16(b)	4,019	2,549
Proceeds from exercise of warrants		—	92,217
Interest paid		(29,587)	(28,279)
Repayment of corporate bonds		—	(89,074)
Proceeds from changes in interests in a subsidiary without change in control		—	3,000
Capital injection by non-controlling interests		3,000	—
Acquisition of non-controlling interests		(6,000)	—
Repayment of advances from a related party	19(b)	(50)	—
Net cash (used in)/generated from financing activities		(87,712)	67,830
Net increase in cash		195,449	66,567
Cash at 1 January	13	866,821	545,207
Cash at 30 June	13	1,062,270	611,774

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 30 to 64 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 21 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2018 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”).

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 21.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the 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 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.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) *Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Changes in the accounting policies *(continued)*

(ii) Lessee accounting *(continued)*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Changes in the accounting policies *(continued)*

(ii) *Lessee accounting (continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) *Determining the lease term*

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 7.05%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in note 17(b) to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018 <i>(note)</i>	637,768
Less: commitments relating to leases exempt from capitalisation: — short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(1,403)
Add: lease payments for the additional periods where the Group considers it reasonably certain that the early termination option will not be exercised <i>(note)</i>	477,780
	1,114,145
Less: total future interest expenses	(400,457)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	713,688
Add: finance lease liabilities recognised as at 31 December 2018	—
Total lease liabilities recognised at 1 January 2019	713,688

Note: Pursuant to a termination clause in certain lease contracts, the Group has the right to early terminate the lease by giving notice to the lessor in advance. As at 31 December 2018, the Group disclosed total future minimum lease payments under the non-cancellable period, which considered the minimum lease period under the notice period. As at the date of transition to HKFRS 16, the Group considers it reasonably certain not to exercise the option to early terminate the lease, therefore the lease term as determined under HKFRS 16 includes additional periods beyond the notice period.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at 1 January 2019, the date of initial application of HKFRS 16).

The Group presents right-of-use assets that do not meet the definition of investment property in “right-of-use assets” and presents lease liabilities separately in the statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Trade and other receivables	889,183	(15,401)	873,782
Total current assets	3,012,225	(15,401)	2,996,824
Right-of-use assets	—	750,794	750,794
Lease prepayments	117,514	(117,514)	—
Deferred tax assets	25,260	23,952	49,212
Total non-current assets	1,162,291	657,232	1,819,523
Lease liabilities (current)	—	79,945	79,945
Total current liabilities	2,615,994	79,945	2,695,939
Net current assets	396,231	(95,346)	300,885
Total assets less current liabilities	1,558,522	561,886	2,120,408
Lease liabilities (non-current)	—	633,743	633,743
Total non-current liabilities	158,286	633,743	792,029
Net assets	1,400,236	(71,857)	1,328,379
Reserves	1,288,442	(70,655)	1,217,787
Total equity attributable to equity shareholders of the Company	1,379,420	(70,655)	1,308,765
Non-controlling interests	20,816	(1,202)	19,614
Total equity	1,400,236	(71,857)	1,328,379

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	82,634	83,913	79,945	82,266
After 1 year but within 2 years	77,882	85,857	67,654	74,636
After 2 years but within 5 years	217,549	274,543	189,943	239,850
After 5 years	409,263	770,910	376,146	717,393
	704,694	1,131,310	633,743	1,031,879
	787,328	1,215,223	713,688	1,114,145
Less: total future interest expenses		(427,895)		(400,457)
Present value of lease liabilities		787,328		713,688

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(e) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit for the period in the Group's consolidated statement of comprehensive income, as compared to the results if HKAS 17 had been applied during the period.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(e) Impact on the financial result and cash flows of the Group *(continued)*

	2019			2018	
	Amounts reported under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 <i>(note 1)</i> (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	358,264	31,206	(41,587)	347,883	230,920
Finance costs	(57,685)	26,009	—	(31,676)	(26,725)
Profit before taxation	319,085	57,215	(41,587)	334,713	217,145
Profit for the period	239,032	57,215	(41,587)	254,660	160,645

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(e) Impact on the financial result and cash flows of the Group *(continued)*

	2019 Estimated amounts related to operating leases as if under HKAS 17 <i>(notes 1 & 2)</i>	Hypothetical amounts for 2019 as if under HKAS 17 <i>(C=A+B)</i>	2018 Compared to amounts reported for 2018 under HKAS 17
Amounts reported under HKFRS 16 <i>(A)</i>	RMB'000	RMB'000	RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:			
Cash generated from operations	518,147	(47,928)	470,219
Net cash generated from operating activities	453,639	(47,928)	405,711
Capital element of lease rentals paid	(21,919)	21,919	—
Interest element of lease rentals paid	(26,009)	26,009	—
Net cash (used in)/generated from financing activities	(87,712)	47,928	(39,784)
	67,830		

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Sales of passenger vehicles	6,015,151	3,779,495
— After-sales services	827,861	567,251
	6,843,012	4,346,746

All revenue was recognised at a point in time.

(b) 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(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 OTHER INCOME

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Commission income	46,515	31,043
Bank interest income	4,640	4,519
Management service income	4,914	3,733
Net gain on disposal of an associate	—	13,194
Net gain on disposal of property, plant and equipment	5,929	14,114
Net foreign exchange gain/(loss)	243	(745)
Others	1,995	2,648
	64,236	68,506

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
(a) Finance costs:		
Interest on:		
— loans and borrowings	25,489	16,214
— corporate bonds	—	3,746
— lease liabilities	26,009	—
Total interest expense	51,498	19,960
Other finance costs (i)	6,187	6,765
Total finance costs	57,685	26,725
(b) Staff costs:		
Salaries, wages and other benefits	269,647	177,569
Equity settled share-based payment expenses (ii)	854	4,029
Contributions to defined contribution retirement plans (iii)	10,324	7,208
	280,825	188,806
(c) Other items:		
Cost of inventories	6,076,793	3,818,186
Write-down of inventories	—	4,914
Depreciation charge		
— owned property, plant and equipment	52,980	46,417
— right-of-use assets	31,206	—
Amortisation of lease prepayments	—	1,646
Amortisation of intangible assets	2,122	1,368
Lease expenses	3,647	28,108
Net foreign exchange (gain)/loss	(243)	745

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

5 PROFIT BEFORE TAXATION (continued)

- (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 RMB854,000 for the six months ended 30 June 2019 in relation to share options granted to certain employees of the Group pursuant to a share option scheme (six months ended 30 June 2018: RMB4,029,000) (see note 16(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.

6 INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax:		
Provision for PRC income tax for the period	86,653	59,113
Deferred tax:		
Origination of temporary differences	(6,600)	(2,613)
	80,053	56,500

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)

6 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.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit attributable to equity shareholders of the Company of RMB235,751,000 (six months ended 30 June 2018: RMB157,586,000) and the weighted average of 1,153,917,000 ordinary shares in issue (six months ended 30 June 2018: 1,146,259,000 ordinary shares) during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2019	2018
Issued ordinary shares at 1 January	1,153,544,000	1,100,630,000
Effect of exercise of warrants	—	45,157,000
Effect of exercise of share options	373,000	472,000
Weighted average number of ordinary shares at 30 June	1,153,917,000	1,146,259,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

7 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2019 is based on the profit attributable to equity shareholders of the Company of RMB235,751,000 (six months ended 30 June 2018: RMB157,586,000) and the weighted average of 1,161,106,000 ordinary shares (six months ended 30 June 2018: 1,152,455,000 ordinary shares) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's employee share option scheme during the period ended 30 June 2019.

Weighted average number of shares (diluted)

	Six months ended 30 June	
	2019	2018
Weighted average number of ordinary shares at 30 June	1,153,917,000	1,146,259,000
Effect of deemed issue of shares under the employee share option scheme	7,189,000	4,737,000
Effect of deemed issue of shares on warrants	—	1,459,000
Weighted average number of ordinary shares (diluted) at 30 June	1,161,106,000	1,152,455,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with original costs of RMB197,149,000 (six months ended 30 June 2018: RMB145,431,000). Items of property, plant and equipment with a net book value of RMB55,061,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB34,714,000), resulting in a gain on disposal of RMB5,929,000 (six months ended 30 June 2018: RMB14,114,000).

9 RIGHT-OF-USE ASSETS

As discussed in note 2, on 1 January 2019 the Group has initially applied HKFRS 16 using the modified retrospective method and recognised right-of-use assets as if from the commencement of lease period for certain leases, which were previously classified as operating lease under HKAS 17. In addition, lease prepayments carried at amortised cost are reclassified as right-of-use assets.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of buildings and warehouses, and therefore recognised additions to right-of-use assets of RMB95,558,000.

10 INVENTORIES

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Motor vehicles	624,995	762,765
Others	90,143	76,091
	715,138	838,856

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

10 INVENTORIES (continued)

(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	
	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	6,076,793	3,818,186
Write down of inventories	—	4,914
	6,076,793	3,823,100

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, is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 month	111,504	109,360
1 to 2 months	18,171	7,687
2 to 3 months	3,442	2,301
Over 3 months	4,919	6,186
Trade debtors	138,036	125,534
Prepayments (i)	150,328	186,435
Other receivables and deposits	585,129	570,209
Amounts due from third parties	873,493	882,178
Amounts due from related parties (note 19(c))	7,727	7,005
Trade and other receivables	881,220	889,183

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

11 TRADE AND OTHER RECEIVABLES (continued)

- (i) On the date of transition to HKFRS 16, prepaid lease expenses of RMB15,401,000 previously included in "Trade and other receivables" as at 31 December 2018 were adjusted to the opening balance of right-of-use assets as at 1 January 2019. See note 2.
- (ii) 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.

12 PLEDGED BANK DEPOSITS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Restricted bank deposits pledged in respect of loans and borrowings	51,182	24,579
Restricted bank deposits pledged in respect of bills payable	385,526	392,786
	436,708	417,365

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 2019 RMB'000	At 31 December 2018 RMB'000
Cash at banks and in hand	1,062,270	866,821

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

14 LOANS AND BORROWINGS

(a) At 30 June 2019, loans and borrowings were repayable as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 year or on demand	1,008,898	1,028,868
After 1 year but within 2 years	56,300	26,300
After 2 years but within 5 years	119,100	117,250
	175,400	143,550
	1,184,298	1,172,418

(b) At 30 June 2019, loans and borrowings were secured as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Unsecured borrowings from other financial institutions	54,640	23,131
Unsecured borrowings from a related party (note 19(c))	43,983	43,810
	98,623	66,941
Secured bank loans (i)	726,083	665,633
Secured borrowings from other financial institutions (i)	359,592	439,844
	1,085,675	1,105,477
	1,184,298	1,172,418

- (i) As at 30 June 2019, certain loans and borrowings were secured by property, plant and equipment, right-of-use assets, inventories, trade and other receivables and pledged bank deposits of the Group and were guaranteed by related parties.

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 2019 RMB'000	At 31 December 2018 RMB'000
Within 3 months	742,491	850,096
Over 3 months but within 6 months	55,568	53,823
Total trade payables and bills payable (i)	798,059	903,919
Contract liabilities	517,561	481,367
Other payables and accruals	243,804	158,098
Amounts due to third parties	1,559,424	1,543,384
Amounts due to related parties (note 19(c))	6,629	6,425
Trade and other payables	1,566,053	1,549,809

(i) As at 30 June 2019, certain bills payable were guaranteed by a related party.

(ii) 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 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	
	2019	2018
	RMB'000	RMB'000
Interim dividend declared after the interim period, of RMB6.1 cents per ordinary share (six months ended 30 June 2018: RMB4.1 cents per ordinary share)	70,525	47,259

The interim dividend proposed after the end of the reporting period 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 during the interim period.*

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB8.49 cents per ordinary share (six months ended 30 June 2018: RMB8.83 cents per ordinary share)	98,157	101,779

(iii) *Other dividends*

During the six months ended 30 June 2019, a subsidiary of the Group declared and paid dividends of RMB2,927,000 (six months ended 30 June 2018: RMB4,577,000) in cash to non-controlling interests.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

16 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Equity settled share-based transactions

(i) *Share options granted on 20 January 2014*

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, the executive director of the Company and Ms. LIU Xuehua, the then executive director 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.

During the six months ended 30 June 2019, 2,600,000 options were exercised (six months ended 30 June 2018: 1,750,000) at a subscription price of HK\$1.8 per ordinary share for a total consideration of HK\$4,680,000 (equivalent to RMB4,019,000) and consequently, HK\$260,000 (equivalent to RMB223,000) and RMB3,796,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB1,514,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of share options.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

16 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

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

(ii) *Share options granted on 4 January 2018*

Pursuant to a resolution of the board of directors of the Company passed on 4 January 2018, 11,980,000 share options were granted to certain eligible employees under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 11,980,000 shares of the Company in aggregate with an exercise price of HK\$2.58, among which 2,000,000 and 2,150,000 share options were granted to Mr. YE Tao, the executive director of the Company and Ms. LIU Xuehua, the then executive director 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 4 January 2018, 4 January 2019, 4 January 2020 and 4 January 2021, respectively, and be exercisable until 3 January 2028.

The Group recorded equity settled share-based payment expenses of RMB854,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB4,029,000) (see note 5(b)(ii)).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

16 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as loans and borrowings and bills payable plus unaccrued proposed dividends, less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

On 1 January 2019, the Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognizes right-of-use assets and corresponding lease liabilities for most of the leases previously accounted for as operating leases. This caused a significant increase in the Group's total debt and hence the Group's adjusted net debt-to-capital ratio rose from 0.59 as at 31 December 2018 to 1.21 as at 1 January 2019.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

16 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Capital management (continued)

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follows:

	Note	30 June 2019	1 January 2019	31 December 2018
		RMB'000	RMB'000	RMB'000
			(Note)	(Note)
Current liabilities:				
Loans and borrowings		1,008,898	1,028,868	1,028,868
Bills payable		659,309	783,603	783,603
Lease liabilities		82,634	79,945	—
		1,750,841	1,892,416	1,812,471
Non-current liabilities:				
Interest-bearing borrowings		175,400	143,550	143,550
Lease liabilities		704,694	633,743	—
Total debt		2,630,935	2,669,709	1,956,021
Add: Proposed dividends	16(a)	70,525	97,936	97,936
Less: Pledged bank deposits	12	(436,708)	(417,365)	(417,365)
Cash and cash equivalents		(1,062,270)	(866,821)	(866,821)
Adjusted net debt		1,202,482	1,483,459	769,771
Total equity		1,465,200	1,328,379	1,400,236
Less: Proposed dividends	16(a)	(70,525)	(97,936)	(97,936)
Adjusted capital		1,394,675	1,230,443	1,302,300
Adjusted net debt-to-capital ratio		0.86	1.21	0.59

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

17 COMMITMENTS

(a) Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for	10,977	46,788
Authorised but not contracted for	14,010	2,520
	24,987	49,308

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Properties RMB'000
Within 1 year	53,069
After 1 year but within 5 years	172,022
After 5 years	412,677
	637,768

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. On 1 January 2019, the Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

18 CONTINGENT LIABILITIES

As at 30 June 2019, one subsidiary of the Group has issued financial guarantees to a non-bank financial institution in respect of financial facilities granted to Dongguan Meidong Automotive Service Co., Ltd. (“Dongguan Meidong”) amounting to RMB80,000,000 (31 December 2018: RMB80,000,000). As at 30 June 2019, the financial facility utilised by Dongguan Meidong amounted to RMB15,615,000 (31 December 2018: RMB9,154,000) (see note 19(e)).

As at 30 June 2019, the directors do not consider it probable that a claim will be made under the above guarantee.

19 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2019, 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 東莞美東	Joint venture
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)

19 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Recurring transactions

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Short-term rental expense:		
— Dadong Group	1,100	1,170
Management service income:		
— Dongguan Meidong	4,914	3,733

(b) Non-recurring transactions

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Sales of passenger vehicles:		
— Dongguan Meidong	1,059	19,568
Purchases of passenger vehicles:		
— Dongguan Meidong	2,994	9,209
Repayment of advance from a related party:		
— YE Fan	50	—
Loans and borrowings from a related party:		
— Apex Sail (i)	—	16,862
Repayment of loans and borrowings from a related party:		
— Apex Sail (ii)	—	8,359

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

19 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Non-recurring transactions (continued)

- (i) During the six months ended 30 June 2018, unsecured loans and borrowings of HK\$20,000,000 with one year maturity period was borrowed by the Company from Apex Sail, which bears an annual interest rate at 6%. During the six months ended 30 June 2019, the Company signed an agreement with Apex Sail to extend the maturity date of loans and borrowings of HK\$20,000,000 from 28 February 2019 to 28 February 2020.
- (ii) During the six months ended 30 June 2018, unsecured loans and borrowing of HK\$10,000,000 with one year maturity period was repaid by the Group to Apex Sail, which bears an annual interest rate at 6%.

(c) Balances with related parties

At 30 June 2019, the Group had the following balances with related parties:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Other receivables due from:		
— Dongguan Meidong	7,727	7,005
Other payables due to:		
— Dongguan Meidong	11	117
— Dadong Group	1,044	684
— YE Fan	5,574	5,624
	6,629	6,425
Loans and borrowings due to:		
— Apex Sail (ii)	43,983	43,810

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

19 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

- (i) 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.
- (ii) Unsecured loans and borrowings of HK\$50,000,000 was borrowed from Apex Sail with an annual interest rate at 6%, of which HK\$30,000,000 was borrowed during the year ended 31 December 2016 with three year maturity period, and HK\$20,000,000 was borrowed during the year ended 31 December 2018 with one year maturity period. During the six months ended 30 June 2019, the Company signed an agreement with Apex Sail to extend the maturity date of loans and borrowings of HK\$20,000,000 from 28 February 2019 to 28 February 2020.

(d) Guarantees and securities issued by related parties

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Guarantees issued by related parties in respect of loans and borrowings borrowed by the Group:		
— YE Fan	749,510	763,750
— Dadong Group	17,700	14,100
Guarantees issued by a related party in respect of bills issued by the Group:		
— YE Fan	560,140	656,256

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

19 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(e) Guarantees issued by the Group

	The Group	
	At	At
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
Guarantees issued by the Group in respect of financial facilities granted to a related party:		
— Dongguan Meidong	80,000	80,000
	80,000	80,000

(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	
	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	3,819	2,455
Equity compensation benefits	494	2,274
	4,313	4,729

Total remuneration is included in staff costs (see note 5(b)).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

20 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Equity settled share-based transaction

Pursuant to a resolution of the board of directors of the Company passed on 18 July 2019, 9,700,000 share options were granted to certain eligible employees and directors under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 9,700,000 shares of the Company with an exercise price of HK\$6.00 each, among which 230,000 share options were granted to Ms. LUO Liuyu, the executive director of the Company, and 1,000,000 share options each were granted to Mr. CHEN Guiyi, Mr. WANG Michael Chou, and Mr. JIP Ki Chi, the independent non-executive directors of the Company, respectively, and a total of 6,470,000 share options were granted to certain eligible employees.

Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 each of the Company. One quarter of these share options will vest on 18 July 2019, 18 July 2020, 18 July 2021, and 18 July 2022, respectively, and they are exercisable until 17 July 2029.

(b) Interim dividend

After the end of the reporting period, the directors declared an interim dividend. Further details are disclosed in note 16(a).

21 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.