MEIDONG AUTO

China MeiDong Auto Holdings Limited
中 國 美 東 汽 車 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liabilities)
(Stock code: 1268)

2014 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover increased significantly to RMB3,854.8 million, representing an increase of 10.8%.
- Gross profit increased by 19.8% to RMB392.6 million.
- Gross profit margin for new passenger vehicle sales rose from 4.2% to 5.3%.
- Overall gross profit margin increased from 9.4% to 10.2%.
- Profit after taxation attributable to equity shareholders of the Company increased by 4.5% to RMB110.7 million.
- A final dividend of RMB0.03 per share is proposed.

RESULTS

The board (the "Board") of directors (the "Directors", or "Director" refers to any of them) of China MeiDong Auto Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2014.

The audited consolidated results of the Group for the year ended 31 December 2014 together with the comparative figures of 2013 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	**2014** **RMB'000**	2013 RMB'000
Turnover	2	**3,854,807**	3,479,663
Cost of sales		**(3,462,182)**	(3,151,847)
Gross profit		**392,625**	327,816
Other revenue and net income	3	**29,283**	33,759
Distribution costs		**(120,760)**	(95,830)
Administrative expenses		**(98,936)**	(80,980)
Profit from operations		**202,212**	184,765
Finance costs	4(a)	**(63,003)**	(45,238)
Share of profits of an associate		**3,789**	65
Share of profits of a joint venture		**13,117**	9,766
Profit before taxation	4	**156,115**	149,358
Income tax	5(a)	**(41,367)**	(39,164)
Profit and total comprehensive income for the year		**114,748**	110,194
Profit and total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**110,680**	105,956
Non-controlling interests		**4,068**	4,238
Profit and total comprehensive income for the year		**114,748**	110,194
Earnings per share	6	***RMB***	*RMB*
Basic and diluted		**0.11**	0.14

CONSOLIDATED BALANCE SHEET

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment		**437,039**	288,370
Lease prepayments		**102,511**	105,323
Intangible assets		**10,684**	11,438
Interest in an associate		**8,000**	4,211
Interest in a joint venture		**36,485**	23,368
Deferred tax assets		**8,729**	9,860
		603,448	442,570
Current assets			
Inventories	8	**641,529**	457,920
Trade and other receivables	9	**308,806**	242,354
Bank deposits		**428,748**	181,590
Cash and cash equivalents		**127,183**	491,205
		1,506,266	1,373,069
Current liabilities			
Loans and borrowings		**609,134**	804,732
Trade and other payables	10	**802,317**	514,539
Income tax payables	5(c)	**8,862**	16,297
		1,420,313	1,335,568
Net current assets		**85,953**	37,501
Total assets less current liabilities		**689,401**	480,071
Non-current liabilities			
Deferred tax liabilities		**3,625**	2,859
Loans and borrowings		**120,476**	–
		124,101	2,859
NET ASSETS		**565,300**	477,212
EQUITY			
Share capital		**78,620**	78,620
Reserves		**465,672**	381,652
Equity attributable to equity shareholders of the Company		**544,292**	460,272
Non-controlling interests		**21,008**	16,940
TOTAL EQUITY		**565,300**	477,212

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Operating activities:			
Cash generated from operations	11	**168,537**	101,570
Income tax paid	5(c)	**(46,905)**	(33,697)
Net cash generated from operating activities		**121,632**	67,873
Investing activities:			
Payment for the purchase of property, plant and equipment		**(181,029)**	(124,712)
Proceeds from disposal of property, plant and equipment and lease prepayment		**13,126**	12,084
Payment for purchase of lease prepayments		**–**	(1,736)
Advances to related parties		**(5,432)**	(196,919)
Repayment of advances to related parties		**114**	367,390
Interest received		**4,305**	10,665
Increase in deposits with a bank		**(145,400)**	–
Net cash (used in)/generated from investing activities		**(314,316)**	66,772
Financing activities:			
Proceeds from loans and borrowings		**2,702,866**	2,562,813
Repayment of loans and borrowings		**(2,777,988)**	(2,326,706)
Proceeds from issue of ordinary shares by initial public offering, net of issuance costs		**–**	334,320
Advances from related parties		**121,000**	52,955
Repayment of advances from related parties		**(121,865)**	(98,618)
Dividends declared and paid		**(30,000)**	(43,739)
Capital injection from equity holders of the Company		**–**	127,965
Interest paid		**(65,351)**	(50,346)
Payment to then equity holders arising from the reorganization		**–**	(360,655)
Net cash (used in)/generated from financing activities		**(171,338)**	197,989
Net (decrease)/increase in cash and cash equivalents		**(364,022)**	332,634
Cash and cash equivalents at 1 January		**491,205**	158,571
Cash and cash equivalents at 31 December		**127,183**	491,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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").

Pursuant to a group reorganisation completed in July 2013 (the "Reorganisation") to rationalise the Group's structure in preparation for the public offering (the "Offering") of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as defined in the Company's prospectus dated 22 November 2013 (the "Prospectus"), the Company became the holding company of the Group. Details of the Reorganisation are set out in the Prospectus. The Company's shares were listed on the Stock Exchange on 5 December 2013 (the "Listing Date").

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Group and the Group's interests in an associate and a joint venture.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

These consolidated financial statements are presented in Renminbi ("RMB") which is the Group's presentation currency, rounded to the nearest thousands, except for earnings per share information.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities
- Amendments to HKAS 32, Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting
- HK(IFRIC) 21, Levies

None of these developments have a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

2 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2014	2013
	RMB'000	*RMB'000*
Sales of passenger vehicles	**3,433,618**	3,115,490
After-sales services	**421,189**	364,173
	3,854,807	3,479,663

(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.

(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.

3 OTHER REVENUE AND NET INCOME

	2014 RMB'000	2013 RMB'000
Other revenue:		
Commission income	**19,124**	19,224
Bank interest income	**9,016**	2,341
Interest income from Guangdong Dadong Automotive Group Co., Ltd.* ("Dadong Group") (廣東大東汽車集團有限公司)	**–**	8,324
	28,140	29,889
Other net income:		
Net (loss)/gain on disposal of property, plant and equipment and lease prepayment	**(14)**	1,242
Others	**1,157**	2,628
	1,143	3,870
	29,283	33,759

4 PROFIT BEFORE TAXATION

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

	Note	2014 RMB'000	2013 RMB'000
(a) Finance costs:			
Interest on loans and borrowings wholly repayable within 5 years		**52,952**	44,228
Other finance costs	*(i)*	**11,947**	6,599
Less: interest expense capitalized	*(ii)*	**(1,896)**	(5,589)
		63,003	45,238
(b) Staff costs:			
Salaries, wages and other benefits		**134,769**	104,636
Equity settled share-based payment expenses	*(iii)*	**3,340**	–
Contributions to defined contribution retirement plans	*(iv)*	**6,181**	4,396
		144,290	109,032

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

(ii) The borrowing costs have been capitalised at a rate of 6% per annum for the year ended 31 December 2014 (2013: 7.07%).

(iii) The Group recognised an expense of RMB3,340,000 for the year ended 31 December 2014 in relation to share options granted to certain employees of the Group pursuant to the share option scheme adopted by the Company on 13 November 2013.

(iv) 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.

	2014	2013
	RMB'000	*RMB'000*
(c) Other items:		
Cost of inventories	**3,425,499**	3,119,896
Depreciation	**26,886**	18,684
Amortisation of lease prepayments	**2,812**	2,943
Amortisation of intangible assets	**754**	754

5 INCOME TAX

(a) Income tax in the consolidated statement of comprehensive income represents:

	2014	2013
	RMB'000	*RMB'000*
Current tax:		
Provision for PRC income tax for the year	**39,470**	38,902
Deferred tax:		
Reversal of temporary differences	**1,897**	262
	41,367	39,164

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

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 companies in Hong Kong are not subject to any Hong Kong withholding tax.

Under the Corporate Income Tax Law of the PRC (the "new CIT Law") 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.

(ii) The new CIT Law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities as at 31 December 2014 in respect of undistributed earnings of RMB198,385,000 (2013: RMB89,620,000) as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributable in the foreseeable future.

(b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

	2014	2013
	RMB'000	*RMB'000*
Profit before taxation	**156,115**	149,358
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**40,680**	40,164
Non-deductible expenses	**1,184**	1,458
Non-taxable income on share of profits of an associate	**(947)**	(16)
Non-taxable income on share of profits of a joint venture	**(3,279)**	(2,442)
Tax effect of unused tax losses not recognized	**3,729**	–
Income tax	**41,367**	39,164

(c) *Income tax payables in the consolidated balance sheet represent:*

	2014	2013
	RMB'000	*RMB'000*
At the beginning of the year	**16,297**	11,092
Provision for current income tax for the year	**39,470**	38,902
Payment during the year	**(46,905)**	(33,697)
At the end of the year	**8,862**	16,297

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB110,680,000 (2013: RMB105,956,000) and the weighted average 1,000,000,000 ordinary shares in issue (2013: 770,833,333 shares) during the year ended 31 December 2014. The weighted average number of ordinary shares in issue during the year ended 31 December 2013 was based on the assumption that 750,000,000 ordinary shares were in issue as if these ordinary shares were outstanding throughout the year presented, calculated as follows:

Weighted average number of ordinary shares

	2014	2013
Issued ordinary shares at 1 January	**1,000,000,000**	750,000,000
Effect of shares issued on initial public offering	**–**	20,833,333
Weighted average number of ordinary shares at 31 December	**1,000,000,000**	770,833,333

The impact of share options to earnings per share was anti-dilutive for the year ended 31 December 2014.

As there were no dilutive potential ordinary shares during the year ended 31 December 2014 and 2013, the diluted earnings per share is equivalent to the basic earnings per share for both years.

7 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	2014	2013
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of RMB0.03 per ordinary share (2013: RMB0.03 per ordinary share)	**30,000**	30,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2014	2013
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.03 per share (2013: nil)	**30,000**	–

8 INVENTORIES

Inventories in the consolidated balance sheet comprise:

	2014	2013
	RMB'000	*RMB'000*
Motor vehicles	**609,640**	434,043
Others	**31,889**	23,877
	641,529	457,920

No inventory provision was made as at 31 December 2014 and 2013, and the inventories as at 31 December 2014 and 2013 were stated at cost.

9 TRADE AND OTHER RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**23,671**	26,506
Prepayments	**42,792**	85,256
Other receivables and deposits	**236,506**	129,785
Amounts due from third parties	**302,969**	241,547
Amounts due from related parties	**5,837**	807
Trade and other receivables	**308,806**	242,354

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

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

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group, which is normally settled within one month directly by major financial institutions. Normally, the Group does not obtain collateral from customers.

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

	2014	2013
	RMB'000	*RMB'000*
Within 1 month	**21,434**	26,093
1 to 2 months	**1,054**	67
2 to 3 months	**281**	170
Over 3 months	**902**	176
	23,671	26,506

10 TRADE AND OTHER PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**31,428**	27,248
Bills payable	**544,296**	339,758
	575,724	367,006
Receipts in advance	**167,771**	90,848
Other payables and accruals	**55,708**	54,921
Amounts due to third parties	**799,203**	512,775
Amounts due to related parties	**3,114**	1,764
Trade and other payables	**802,317**	514,539

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

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

	2014	2013
	RMB'000	*RMB'000*
Due within 3 months	**572,783**	357,078
Due after 3 months but within 6 months	**2,941**	9,928
	575,724	367,006

11 RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	Notes	2014 RMB'000	2013 RMB'000
Profit before taxation		**156,115**	149,358
Adjustments for:			
– Depreciation	4(c)	**26,886**	18,684
– Amortisation of lease prepayments	4(c)	**2,812**	2,943
– Amortisation of intangible assets	4(c)	**754**	754
– Net loss/(gain) on disposal of property, plant and equipment and lease prepayment	3	**14**	(1,242)
– Finance costs	4(a)	**63,003**	45,238
– Share of profits of an associate		**(3,789)**	(65)
– Share of profits of a joint venture		**(13,117)**	(9,766)
– Interest income	3	**(9,016)**	(10,665)
– Equity settled share-based payment expenses	4(b)	**3,340**	–
Changes in working capital:			
Increase in inventories		**(183,609)**	(167,166)
Increase in trade and other receivables		**(56,423)**	(48,848)
Increase in pledged bank deposits		**(101,758)**	(80,924)
Increase in trade and other payables		**283,325**	203,269
Cash generated from operations		**168,537**	101,570

FINANCIAL REVIEW

Turnover and Cost of Sales

For the year ended 31 December 2014, the Group recorded a turnover of RMB3,854,807,000, representing an increase of 10.8% from RMB3,479,663,000 recorded in 2013. The increase in turnover is made up of: (i) a slight increase in sale of new passenger vehicles from existing stores; (ii) significant increase in sales of new passenger vehicles from the four new stores opened during the year; and (iii) increase in after sales services of approximately 15.7%. Cost of sales increased by 9.8% from RMB3,151,847,000 in 2013 to RMB3,462,182,000 for the year ended 31 December 2014. The increase in cost of sales is made up of: (i) the cost incurred from new passenger vehicle sales of the new stores opened in 2014; and (ii) increase in after sales services of approximately 26.3%.

Gross Profit

Gross profit increased from RMB327,816,000 for the year ended 31 December 2013 to RMB392,625,000 for the year ended 31 December 2014, representing an increase of approximately 19.8%. Gross profit margin also increased from 9.4% recorded in 2013 to 10.2% for the year ended 31 December 2014. The increase is mainly attributed by: (1) higher gross margin in new car sales with the release of the new Toyota RAV 4 and Toyota Vios in the second half of 2013 and Toyota Corolla in 2014; and (2) higher number of units sold in the higher margin luxury brands from the new stores opened including the much higher margin Porsche store in Shunde which opened in October 2014; but slightly off-set by the decrease in after-sales gross profit margin from 54.0% for the year ended 31 December 2013 to 49.7% for the year ended 31 December 2014. The decrease in the after-sales service margin is mainly due to the decrease in service fees received from license registration services and commission received from the brokerage of financial services ("Other After-Sales Services") while gross profit margins from maintenance and repair services remained quite stable at 45.3% for the year ended 31 December 2014 compared to the 45.7% in 2013. Gross profit breakdown of after-sales services is as follows:

Category	**2014** ***RMB'000***	2013 *RMB'000*	**Variance**
Maintenance and Repair Services	**167,100**	140,841	18.6%
Other After-Sales Services	**42,373**	55,737	(24.0%)
Total After-Sales Services Gross Profit	**209,473**	196,578	6.6%

Distribution Costs and Administrative Expenses

Distribution costs increased to RMB120,760,000 for the year ended 31 December 2014 from RMB95,830,000 recorded in 2013 representing an increase of approximately 26.0%. Administrative expenses increased to RMB98,936,000 for the year ended 31 December 2014 from RMB80,980,000 for the year ended 31 December 2013 representing an increase of approximately 22.2%. The increases in both distribution costs and administrative expenses mainly relate to the increase in depreciation charges, wages and salaries (including staff welfare and social insurance), operating leases, travelling and transportation, professional fees and employee share options expenses accounting for approximately 18.5%, 64%, 4.8%, 5.3%, 7.7% and 7.8% respectively. The increases had been set-off by the decrease in the expenses relating to the listing of the Company's shares in 2013 amounting to RMB12,579,000. These increases are mainly attributable to the new stores that opened in 2014 where there is a slight mismatch between revenue and expenses. As at 31 December 2014, the Group had seventeen operating subsidiaries and four stores under construction (the "Stores Under Construction"). The administrative expenses of the Stores Under Construction which could not be capitalized, such as rental charges, the salary and wages of the store's general manager, sales manager or after-sales manager that had been assigned/deployed for the Stores Under Construction, were charged to the income statement. As the Stores Under Construction commence operations, revenue generated by these stores will further absorb the distribution costs and administrative expenses as a percentage of revenue, which is a demonstration of the Group's ability to expand at a healthy pace without sacrificing profitability.

Finance Costs

Finance costs increased by 39.3% to RMB63,003,000 for the year ended 31 December 2014 from RMB45,238,000 recorded during 2013. The increase is mainly attributable by the increase in inventory level from: (i) the initial inventory and higher average selling price ("ASP") value from of the new luxury brand stores; and (ii) slower than expected sales resulting in an oversupply of inventory for the year ended 31 December 2014. As a result, finance cost as a percentage of turnover increased from 1.3% for the year ended 31 December 2013 to 1.6% for the year ended 31 December 2014.

Other Income

Other income decreased slightly from RMB33,759,000 for the year ended 31 December 2013 to RMB29,283,000 for the year ended 31 December 2014, representing a decrease of approximately 13.3%. The decrease is attributable by: (1) interest income from Dadong Group of RMB8,324,000 received for the year ended 31 December 2013 to nil for the year ended 31 December 2014, for the outstanding balance of non-recurring advances that certain subsidiaries granted to Dadong Group. No interest was charged for advances granted to Dadong Group prior to 2013, as Dadong Group was the holding company of our subsidiaries in the People's Republic of China (the "PRC") prior to reorganization of the Group for the listing on the main board of the Stock Exchange (details of the reorganization can be found in the Prospectus dated 5 December 2013); and (2) off-set by the increase in interest income from bank deposits mainly from the proceeds from the initial public offering in 2013 from RMB2,341,000 to RMB9,016,000 for the year ended 31 December 2014.

Associated Company and Joint Venture Company

Share of results of associated company and share of results of joint venture increased by approximately 72.0% from RMB9,831,000 for the year ended 31 December 2013 to RMB16,906,000 for the year ended 31 December 2014. The increase is mainly attributable by the higher profit achieved by the Lexus store of Dongguan MeiDong Automotive Service Co., Ltd.* (東莞美東汽車服務有限公司), a joint venture, the day-to-day operations of the store is managed by the Group.

Taxation

Taxation increased significantly from RMB39,164,000 for the year ended 31 December 2013 to RMB41,367,000 for the year ended 31 December 2014, representing an increase of approximately 5.6%. The effective tax rate remained stable from 26.2% for the year ended 31 December 2013 to 26.5% for the year ended 31 December 2014. The Group's PRC subsidiaries are subject to a statutory tax rate of 25%.

Absorption Ratio

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

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

An absorption rate of 100%, or close to 100%, indicates that the dealership's operating costs can essentially be supported by after sales services alone. For the year ended 31 December 2014, our absorption rate for the Group was at 95.3%, representing a slight decrease from 111.2% for the year ended 31 December 2013. The decrease is mainly attributable by the decrease in gross profit (Please refer to the explanation under the paragraph "Gross Profit" above).

Use of Proceeds From Listing of the Company's Shares

On 5 December 2013, the Company's ordinary shares were successfully listed on the Stock Exchange at a price of HK$1.8 per share with net proceeds from the listing (after deducting commission and other expenses relating to the listing) amounted to approximately RMB316,607,000. The designated use of the net proceeds from the listing was allocated for opening new 4S dealership stores (50%), acquisition of other 4S dealership stores (30%), new lines of business such as used vehicles or IT system upgrades (10%), and as general working capital (10%). As at 31 December 2014, the use of proceeds is as follows:

Purpose	Per Prospectus	Utilized	Remaining
New Dealership Stores	RMB158,303,500	RMB128,303,500	RMB30,000,000
Acquisition	RMB94,982,100	Nil	RMB94,982,100
New Businesses	RMB31,660,700	RMB5,000,000	RMB26,660,700
Working Capital	RMB31,660,700	RMB31,660,700	Nil
Total	RMB316,607,000	RMB164,964,200	RMB151,642,800

Financial Resources and Position

As at 31 December 2014, the Group's borrowings amounted to RMB729,610,000, representing a decrease of approximately 9.3% from RMB804,732,000 as at 31 December 2013. With the exception of RMB120,476,000 that matures after one year but within two years, all other loans are short term in nature. As at 31 December 2014, the Group had a current ratio of 1.1 times and a gearing ratio of (loans and borrowings less cash and cash equivalents and bank deposits divided by equity attributable to equity shareholders of the Company) of 31.9%. As at 31 December 2014, total banking facilities available to the Group amounted to RMB2,686,766,000 of which approximately RMB1,273,906,000 have been utilized.

Cash and cash equivalents and bank deposits amounted to RMB555,931,000 as at 31 December 2014, of which RMB283,348,000 has been pledged for securing banking facilities granted to the Group. Cash and cash equivalents are mostly denominated in Renminbi and Hong Kong Dollars. As the Group's businesses are conducted in the PRC, therefore the Group does not expect to be exposed to any material foreign exchange risks.

As at 31 December 2014, assets pledged by the Group amounted to RMB320,591,000 to secure loans and borrowings of the Group.

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

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2014.

BUSINESS REVIEW

Looking back into 2014, the automobile market in China witnessed a slowdown of new car sales growth, change in the automobile consumption structure, high level of inventory at dealers and roll-out of new policies in the industry.

Slowdown of new car sales growth: According to the statistics published by the Ministry of Industry and Information Technology, new car sales in China amounted to 23.4919 million units in 2014, representing a year-on-year growth of 6.9%, which is significantly lower than the 13.87% recorded in 2013.

Change in the automobile consumption structure: In China, the growth in sales of passenger vehicles, especially sport utility vehicles (SUV) and multi-purpose vehicles (MPV), was higher than the overall automobile sales growth, reflecting further enhancement of the automobile consumption structure. The annual sales volume of passenger vehicles was 19.7006 million units, representing a year-on-year growth of 9.89%; among which, 4.0779 million units and 1.9143 million units were SUVs and MPVs, representing a year-on-year growth of 36.44% and 46.79%, respectively.

High level of inventory at dealers: According to the information published by the China Automobile Dealers Association, about 40% of dealers had an average monthly inventory level of over two months in 2014.

Roll-out of new policies on the industry: In 2014, over 10 policies or regulations of various different aspects for the industry have been issued by various government authorities (including Ministry of Finance, Ministry of Commerce, Ministry of Industry and Information Technology, Ministry of Public Security, National Development and Reform Commission, State Administration for Industry & Commerce and Ministry of Transport of the PRC). These policies or regulations covers aspects such as subsidies on scrap vehicles, management on automobile fuel consumption, inspection of motor vehicles, management of the automobile maintenance industry, encouragement of the use of new energy vehicles, reform of public service vehicles, certification of second-hand automobiles and filings with the administration for industry and commerce authorized by brand distributors. Anti-monopoly investigation on the automobile industry has also commenced. The introduction of these new policies and the commencement of anti-monopoly investigation in the automobile industry will be beneficial to the healthy and orderly development of the dealership industry in the long term, and will drive the need for higher level of standardized operation and management of the distributors.

On the other hand, new car purchase restriction became a key driver for sales growth in first- and second- tier cities in China resolutions in panic-stricken purchases in 2014. As compared to these first- and second- tier cities, with urbanization, and the continuous expansion of the automobile enterprise and distributor network, the automobile consumption in the third- and fourth-tier cities in China will remain in the fast growing stage.

New Passenger Vehicle Sales

New passenger vehicle sales accounted for approximately 89.1% of total revenue for the year ended 31 December 2014, which also includes the sales of bundled accessories that are included in the sales of new passenger vehicles. The Group sold a total of 17,746 units of new passenger vehicles for the year ended 31 December 2014, representing an increase of approximately 4.6% from the 16,967 units sold during 2013.

New passenger vehicle sales enjoyed a healthy growth in 2014. Other than Toyota which decreased by 7.7% or 902 units when compared to 2013, other brands enjoyed healthy growths with BMW being the highest at 78.3%, Hyundai at 22.0% and Lexus at a modest 2.3%. Our first Porsche store which commenced trial operations in October 2014 sold 119 units for the year ended 31 December 2014.

The overall gross profit margin for new vehicle sales increased from 4.2% for the year ended 31 December 2013 to 5.3% for the year ended 31 December 2014 with mid-to-high-end brands increasing from 3.9% to 5.1% and luxury brands (including Porsche) increasing from 4.8% to 5.6%. The increase in the gross profit margin is primarily due to: (1) increases in ASP; (2) the release of new models by automobile manufacturers such as the Toyota RAV 4 and Toyota Vios in the second half of 2013 and Toyota Corolla in 2014; (3) higher increase in sales for the higher margin BMW than Lexus; (4) continued effort by our management to improve margins while controlling rate of inventory turns; and (5) sales from the much higher margin Porsche store.

After Sales Services

After sales services accounted for approximately 10.9% of our total revenue for the year ended 31 December 2014. After sales services principally consists of sales of spare parts and the provision of repair and maintenance services, and to a lesser extent, the provision of certain other automobile-related services such as fees from vehicle registration services and commission income from mortgage loan application services. The Group serviced a total of 206,014 after sales services for the year ended 31 December 2014, representing an unit increase of approximately 11.6% from the 184,590 units serviced during 2013.

Increase in the number of services performed was higher for the luxury brands than for the mid-to-high-end brands as the new stores opened in 2013 and 2014 were luxury brand stores. In addition, the mid-to-high-end brand stores are in general more mature compared to the luxury brand stores.

With the exception of BMW, all brands enjoyed a slight increase in the ASP for services mainly due to the lower efficiency in terms of labour deployment for the new stores that opened in 2014. The overall ASP (including service fees received from license registration services and commission received from the brokerage of financial services) increased by 3.6% for the year ended 31 December 2014 compared to that for the year ended 31 December 2013. The gross profit margin had remained quite stable for all brands for the year ended 31 December 2014 when compared with last year.

New Store Openings

In 2014, four stores were opened taking the number of operating 4S dealership stores to 19 (17 subsidiary stores, one joint venture store that is operated by us and an associate store). One new Toyota store (Fenggang) was opened in the city of Dongguan, Guangdong Province, two new BMW stores, one in the city of Changde in the Hunan Province and one in the city of Chengde in the Hebei Province and a Porsche store in Shunde. With our internally trained management team, an aligned corporate culture and an internally generated KPI data capture and management approach, not to mention hard work and dedication, with the exception of the Porsche store which commenced trial operations in October 2014, these stores set another milestone for the Group as all three stores broke single month profitability within three months of their respective commencement of operations.

New Projects

Currently, we have fourteen projects on hand to open 4S dealership stores as follows:

	Brand	City	Province
(1)	BMW	Beijing	Beijing
(2)	BMW	Chengdu	Sichuan
(3)	BMW	Huanggang	Hubei
(4)	BMW	Jingdezhen	Jiangxi
(5)	BMW	Xianning	Hubei
(6)	BMW	Xiaogan	Hubei
(7)	BMW	Yongzhou	Hunan
(8)	BMW	Yueyang	Hunan
(9)	BMW	Zhangjiajie	Hunan
(10)	Lexus	Liuzhou	Guangxi
(11)	Lexus	Longyan	Fujian
(12)	Lexus	Zhangzhou	Fujian
(13)	Porsche	Shantou	Guangdong
(14)	Toyota	Zhongtong	Guangdong

Due to the slowing down of the industry in 2014, we have reassessed the feasibility of each store individually either by reducing the size of such stores or by retrofitting the existing available facilities instead of constructing new stores, however this would still be subject to the confirmation from the manufacturers on a store-by-store basis. The Group estimates that the costs of the 14 projects can be reduced significantly.

Since the Group is able to control the loss making period for new store opened within a quarter, this reduction in costs for opening new stores is a good opportunity for the positive development of the Group in the current prevailing slowing-down environment of the industry. Accordingly, it is the Group's strategy to grasp this opportunity to speed up the pace of construction and opening of as many new stores as possible in 2015.

STAFF TRAINING AND DEVELOPMENT

As at 31 December 2014, the Group had a total of 1,806 employees, the majority of whom are situated in China. 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 continues to improve its training courses, enhance personnel training and cultivation and perfect the personnel promotion system with the combination of KPI evaluation system. The new personnel of about 30 for management posts throughout the year were trained for and transferred to the Group with rate of brain drain less than 5%, forming a personnel pool of over 100 strong.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics, decides the emoluments of the Directors. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

On 20 January 2014, share options to subscribe for 11,400,000 shares of the Company were granted under the share option scheme adopted by the Company on 13 November 2013 to two Directors and eligible employees (the "Grant"). The Grant represents approximately 1.14% of the issued share capital of the Company as at the date of this report.

PROSPECTS

2014 was a year full of challenges but a year for Meidong Auto to demonstrate its strength and to build its confidence. Leveraging on our advanced data driven management system, excellent operating capability of each store, consistent effort in network planning in third- and fourth-tier cities in Central and Southern China, a balanced brand mix together with our efficient and loyal management team, we continued to make significant progress in a challenging business environment in 2014.

Looking forward, we are confident in the traditional dealership market (including new car sales and after-sales services) in China, especially the automobile market in third- and fourth-tier cities in China, which is also the focused region of the Group. We also have high expectation for other related business such as, second-hand automobiles, automobile accessories and automobile finance related after sales market. Meanwhile, we will closely monitor the new trends and modes, such as the internet and automobile e-commerce channels.

We will further enhance our single store operation efficiency and increase customer and employees satisfaction by continuing to strengthen the operation and management capacities of the Group and the single stores. We will accelerate the growth of our dealership network by adhering to our strategy of expanding into the third- and fourth-tier cities. We will also take full advantage of internet and mobile platform to enhance customers' experience with car purchases and services and by improving our marketing efficiency. We will strive to participate in ventures and expansion in the automobile after-sales market with a view to continue to enrich our products and services.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

Corporate Governance

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 of the Listing Rules (the "Code") during the year ended 31 December 2014.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code 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 year ended 31 December 2014.

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 31 March 2015 to review the annual results for the year ended 31 December 2014 in conjunction with the Group's internal auditors and KPMG, the Group's external auditor.

Annual General Meeting

The Annual General Meeting (the "AGM") will be held on 22 May 2015. For details of the AGM, please refer to the Notice of AGM which is expected to be published on or about 20 April 2015.

Final Dividend

The Board recommended the payment of a final cash dividend out of the share premium account under reserves of the Company of RMB0.03 per share (2013: RMB0.03 per share) to shareholders whose names are on the register of members on 2 June 2015, which is subject to approval by shareholders at the AGM and compliance with the Companies Law of the Cayman Islands.

It is expected that the cheques for cash dividends will be sent by ordinary mail to shareholders at their own risk on or about 16 June 2015.

Closure of Register of Members

The register of members of the Company will be closed for the following periods:

1. (1) from 20 May 2015 to 22 May 2015, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM; and

2. (2) from 29 May 2015 to 2 June 2015, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the final dividend to be approved at the AGM.

All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 19 May 2015 and 28 May 2015 respectively.

New Corporate Identity

The Directors are also pleased to announce that the Group has on 31 March 2015 adopted a new set of corporate identity starting with the introduction of the Group's new corporate logo in this announcement.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my gratitude to all the staff and management team for their contribution during the period. I would also like to express my appreciation to the continuous support of our shareholders and investors.

By Order of the Board
YE Tao
Chief Executive Officer

Hong Kong, 31 March 2015

* *for identification purpose only.*

As at the date of this announcement, the Board comprises:

Executive Directors:
Mr YE Fan *(Chairman)*
Mr YE Tao *(Chief Executive Officer)*
Ms LIU Xuehua

Independent Non-executive Directors:
Mr Li Lin
Mr PAN Lu
Mr JIP Ki Chi