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**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)

2015 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue increased to RMB2,130 million, representing an increase of 18.5%.
- Gross profit for new car sales decreased to RMB91.9 million, representing a decrease of 14.3%.
- Gross profit margin for new car sales decreased slightly to 4.9%.
- Gross profit for after sales services increased to RMB117.6 million, representing an increase of 15.4%.
- Gross profit margin for after sales services remain stable at 49.6%.
- Overall gross profit remained stable at RMB209.4 million while the overall gross profit margin decreased slightly to 9.8%.
- One-off compensation paid to bondholders amounted to RMB9.1 million was expensed during the period.
- Profit after taxation attributable to shareholders of the Company decreased to RMB51.2 million, representing a decrease of 31.1%.

RESULTS

The board of directors (the "Board") of China MeiDong Auto Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2015.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015 – unaudited

		Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
	Note		
Revenue	3 & 4	2,129,973	1,797,669
Cost of sales	6	<u>(1,920,545)</u>	<u>(1,588,571)</u>
Gross profit		209,428	209,098
Other income	5	10,039	15,405
Distribution costs		(63,910)	(54,523)
Administrative expenses		<u>(54,117)</u>	<u>(46,776)</u>
Profit from operations		101,440	123,204
Total borrowing cost less interest expense capitalized		(26,447)	(22,307)
Compensation to bondholders		(9,099)	–
Other finance cost		<u>(6,494)</u>	<u>(4,959)</u>
Net finance costs	6(a)	(42,040)	(27,266)
Share of profits of an associate		1,639	1,195
Share of profits of a joint venture		<u>8,845</u>	<u>6,132</u>
Profit before taxation	6	69,884	103,265
Income tax	7	<u>(15,869)</u>	<u>(27,387)</u>
Profit and total comprehensive income for the period		<u>54,015</u>	<u>75,878</u>
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		51,171	74,317
Non-controlling interests		<u>2,844</u>	<u>1,561</u>
Profit and total comprehensive income for the period		<u>54,015</u>	<u>75,878</u>
Earnings per share	8		
Basic and diluted (RMB cents)		<u>5.06</u>	<u>7.43</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015 – unaudited

	Note	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Non-current assets			
Property, plant and equipment	9	476,361	437,039
Lease prepayments		101,090	102,511
Intangible assets		10,307	10,684
Interest in an associate		9,639	8,000
Interest in a joint venture		45,330	36,485
Other non-current assets		25,351	–
Deferred tax assets		14,230	8,729
		682,308	603,448
Current assets			
Inventories	10	481,125	641,529
Trade and other receivables	11	276,529	308,806
Bank deposits	12	525,775	428,748
Cash and cash equivalents	13	222,511	127,183
		1,505,940	1,506,266
Current liabilities			
Loans and borrowings	14	603,385	609,134
Trade and other payables	15	623,160	802,317
Income tax payables		15,634	8,862
		1,242,179	1,420,313
Net current assets		263,761	85,953
Total assets less current liabilities		946,069	689,401
Non-current liabilities			
Corporate bonds	16	69,026	–
Deferred tax liabilities		3,531	3,625
Loans and borrowings	14	129,726	120,476
Other non-current liabilities		1,346	–
		203,629	124,101
NET ASSETS		742,440	565,300
EQUITY	17		
Share capital		86,515	78,620
Reserves		632,073	465,672
Total equity attributable to equity shareholders of the Company		718,588	544,292
Non-controlling interests		23,852	21,008
TOTAL EQUITY		742,440	565,300

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

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 Group is principally engaged in 4S dealership business in the People's Republic of China (the "PRC").

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 25 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes 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 2014 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.

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2014 are available from the Company's registered office. The independent auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2015.

2 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contribution*
- Annual improvements to HKFRSs 2010-2012 Cycle
- Annual improvements to HKFRSs 2011-2013 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

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

(i) Information about geographical area

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

(ii) Information about major customers

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

4 REVENUE

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Sales of passenger vehicles	1,892,876	1,599,073
After-sales services	237,097	198,596
	2,129,973	1,797,669

5 OTHER INCOME

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Commission income	8,116	9,006
Bank interest income	2,763	5,026
Net (loss)/gain on disposal of property, plant and equipment	(1,511)	212
Others	671	1,161
	10,039	15,405

6 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
(a) Net finance costs:			
Interest on:			
– loans and borrowings wholly repayable within 5 years		22,280	23,103
– corporate bonds repayable within 5 years		4,167	–
Total borrowing cost		26,447	23,103
Less: interest expense capitalized		–	(796)
		26,447	22,307
Compensation to bondholders	(i)	9,099	–
Other finance costs	(ii)	6,494	4,959
		42,040	27,266
(b) Staff costs:			
Salaries, wages and other benefits		69,503	63,579
Equity settled share-based payment expenses	(iii)	889	1,576
Contributions to defined contribution retirement plans	(iv)	3,046	2,997
		73,438	68,152
(c) Other items:			
		Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
Cost of inventories		1,899,835	1,570,384
Depreciation		17,704	12,199
Amortisation of lease prepayments		1,421	1,271
Amortisation of intangible assets		377	377
Operating lease charges		8,392	8,061
Net foreign exchange gain		(6)	(535)
(i)	It represents compensation payable to the bondholders in the amount of RMB9,099,000 recorded during the period ended 30 June 2015 (see note 16).		
(ii)	It represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.		
(iii)	The Group recognised an expense of RMB889,000 for the six months ended 30 June 2015 in relation to share options granted to certain employees of the Group pursuant to a share option scheme (six months ended 30 June 2014: RMB1,576,000) (see note 17(c)).		

- (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.

7 INCOME TAX

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Current tax:		
Provision for PRC income tax for the period	21,464	26,101
Deferred tax:		
(Origination)/reversal of temporary differences	(5,595)	1,286
	15,869	27,387

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

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

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

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

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2015 is based on the profit attributable to equity shareholders of the Company of RMB51,171,000 (six months ended 30 June 2014: RMB74,317,000) and the weighted average of 1,010,497,000 ordinary shares in issue (six months ended 30 June 2014: 1,000,000,000 shares) during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2015	2014
Issued ordinary shares at 1 January	1,000,000,000	1,000,000,000
Effect of new shares issued (see note 17(e))	10,497,000	—
Weighted average number of ordinary shares at 30 June	1,010,497,000	1,000,000,000

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

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9 PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Net book value, at 1 January	437,039	288,370
Additions	71,023	188,695
Disposals	(18,725)	(22,257)
Depreciation charge for the period/year	(17,704)	(26,886)
Written back on disposals	4,728	9,117
	476,361	437,039
At 30 June/31 December	476,361	437,039

10 INVENTORIES

Inventories in the consolidated statement of financial position comprised:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Motor vehicles	448,669	609,640
Others	32,456	31,889
	481,125	641,529

No inventory provision was made as at 30 June 2015 and 31 December 2014, and the inventories as at 30 June 2015 and 31 December 2014 were stated at cost.

11 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 month	22,726	21,434
1 to 2 months	1,008	1,054
2 to 3 months	461	281
Over 3 months	931	902
	25,126	23,671
Trade debtors	25,126	23,671
Prepayments	64,301	42,792
Other receivables and deposits	187,082	236,506
	276,509	302,969
Amounts due from third parties	276,509	302,969
Amounts due from related parties	20	5,837
	276,529	308,806
Trade and other receivables	276,529	308,806

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.

12 BANK DEPOSITS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Restricted bank deposits pledged in respect of loans and borrowings	225,031	61,479
Restricted bank deposits pledged in respect of bills payable	144,377	221,869
Unrestricted bank deposits with an initial term of over three months but within one year	156,367	145,400
	525,775	428,748

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 2015 RMB'000	At 31 December 2014 RMB'000
Cash at banks and in hand	222,511	127,183

14 LOANS AND BORROWINGS

(a) At 30 June 2015, loans and borrowings were repayable as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year or on demand	603,385	609,134
After 1 year but within 2 years	129,726	120,476
	733,111	729,610

(b) At 30 June 2015, loans and borrowings were secured as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Unsecured bank loans	98,833	190,033
Unsecured borrowings from related parties	—	40,000
Unsecured borrowings from other financial institutions	8,285	3,850
	107,118	233,883
Secured bank loans	411,404	261,525
Secured borrowings from other financial institutions	159,113	178,726
Secured borrowings from a third party	55,476	55,476
	625,993	495,727
	733,111	729,610

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 2015 RMB'000	At 31 December 2014 RMB'000
Within 3 months	361,053	572,783
Over 3 months but within 6 months	39,487	2,941
Total trade payables and bills payable	400,540	575,724
Receipts in advance	144,496	167,771
Other payables and accruals	47,240	55,708
Dividend payables (note 17(a))	30,000	–
Amounts due to third parties	622,276	799,203
Amounts due to related parties	884	3,114
Trade and other payables	623,160	802,317

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

16 CORPORATE BONDS

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

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

In addition, the Company shall pay certain compensation in cash to bondholders if the Company breaches certain conditions stipulated in the bond instrument contract. As at 30 June 2015, the Company accrued the compensation of RMB9,099,000 payable to the bondholders due to the breach of such conditions, which was recorded in finance costs.

The bonds were guaranteed by Mr. Ye Fan and Mr. Ye Tao and secured by 175,838,151 ordinary shares of the Company held by its immediate parent company, Apex Sail Limited.

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

Approved during the interim period:

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period of RMB3 cents per ordinary share (six months ended 30 June 2014: RMB3 cents)	30,000	30,000

During the six months ended 30 June 2014, the Company paid the approved final dividend in respect of the year ended 31 December 2013 of RMB30,000,000.

(b) Share capital

Ordinary shares, issued and fully paid:

		At 30 June 2015		At 31 December 2014	
		Par value	Number of shares	Nominal value of ordinary shares	Nominal value of ordinary shares
	<i>Note</i>	<i>HK\$</i>	<i>(thousand)</i>	<i>HK\$'000</i>	<i>(thousand) HK\$'000</i>
At 1 January		0.1	1,000,000	100,000	1,000,000 100,000
Issuance of new shares	17(e)	0.1	100,000	10,000	– –
At 30 June/31 December		0.1	1,100,000	110,000	1,000,000 100,000

(c) Equity settled share-based transactions

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

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

No options were exercised during the six months ended 30 June 2015 (six months ended 30 June 2014: nil).

The Group recorded equity settled share-based payment expenses of RMB889,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB1,576,000) (see note 6(b)(iii)).

(d) Warrants

On 9 March 2015, the Company issued warrants, which entitled the holders thereof to subscribe up to RMB118,202,715 for 62,773,614 warrant shares at a subscription price of RMB1.883 per warrant share within three years after the issuance date. The fair value of warrants amounting to RMB13,103,000 net of direct warrant issuance expenses of RMB127,000 was credited to capital reserve.

During the period ended 30 June 2015, no warrants were exercised.

(e) Issuance of new shares

On 12 June 2015, the Company issued 100,000,000 new ordinary shares at the subscription price of HK\$1.83 per share. The gross proceeds of HK\$183,000,000 (RMB Equivalent 144,473,000), net of direct share issuance expenses of HK\$ 6,604,000 (RMB Equivalent 5,213,000), were raised, of which RMB7,895,000 and RMB131,365,000 was credited to share capital and share premium account, respectively.

18 CONTINGENT LIABILITIES

As at 30 June 2015, one subsidiary of the Group has issued financial guarantees to a financial institution in respect of financial facilities granted to related parties of the Group amounting to RMB100,000,000 and the financial facility utilised by the related parties amounted to RMB25,897,000 as at 30 June 2015.

As at 30 June 2015, the directors do not consider it probable that a claim will be made under the above guarantee.

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Contracted for	39,862	45,901
Authorised but not contracted for	80,077	116,247
	119,939	162,148

20 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 20 August 2015, Dongguan Meixin Business Consulting Co., Ltd. ("Dongguan Meixin"), a wholly-owned subsidiary of the Group, entered into an equity transfer agreement with Shenzhen Shenye Industrial Co., Ltd. ("Shenzhen Shenye"), an independent third party, pursuant to which Dongguan Meixin has conditionally agreed to acquire and Shenzhen Shenye has conditionally agreed to sell its 100% equity interests in Xinyu Shenye Toyota Motor Sales Co., Ltd. ("Xinyu Toyota") at a consideration equal to the sum of (i) RMB9,200,000 (equivalent to approximately HK\$11,154,000), (ii) the net current asset value of Xinyu Toyota as at 31 August 2015, and (iii) the net book value of the test drive cars of Xinyu Toyota as at 31 August 2015. Upon completion of the equity transfer, Xinyu Toyota will become a wholly-owned subsidiary of the Group.

In addition, on 20 August 2015, Dongguan Meixin entered into a framework agreement with Shenzhen Shenye and Jiujiang Shenye Toyota Motor Sales Co., Ltd. ("Jiujiang Toyota"), a company wholly owned by Shenzhen Shenye, pursuant to which Dongguan Meixin agreed to set up a new company, renting Jiujiang Toyota's business premises and equipment and acquiring its other fixed assets. Pursuant to the framework agreement, the consideration for renting the business premises and equipment of Jiujiang Toyota is at a rent of RMB150,000 per month after tax for a period of 15 years with 12% increment in every 3 years, and the consideration for acquiring other fixed assets is at their market value.

FINANCIAL REVIEW

Revenue and Cost of Sales

For the six months ended 30 June 2015, the Group recorded a revenue of RMB2,129,973,000, representing an increase of 18.5% from RMB1,797,669,000 recorded in the same period in 2014. The increase in revenue is made up of: (i) increase in sales of new passenger vehicles from the new stores that opened since 30 June 2014 of approximately 18.1%; and (ii) increase in after sales services of approximately 2.1% but off-set by a decrease in sale of new passenger vehicles from existing stores of approximately 1.7%. Cost of goods sold increased by 20.9% from RMB1,588,571,000 for the six months ended 30 June 2014 to RMB1,920,545,000 for the six months ended 30 June 2015. The increase in cost of goods sold is made up of: (i) the cost incurred from new passenger vehicle sales from the new stores of approximately 18.9%; and (ii) increase in after sales services of approximately 1.4% and an increase in sale of new passenger vehicles from existing stores of approximately 0.6%.

Gross Profit

Gross profit remained stable at RMB209,428,000 for the six months ended 30 June 2015 when compared to the same period in 2014 of RMB209,098,000. Gross profit margin decreased slightly from 11.6% recorded during the six months ended 30 June 2014 to 9.8% for the six months ended 30 June 2015. The decrease in the gross profit margin is mainly attributed by a general decrease in the gross profit margin for new passenger vehicle sales for all brands but set-off by the increase in contribution in the gross profit mix from the luxury brands. The decrease in the after-sales service margin is mainly due to the decrease in gross profit margin of 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 increased to 45.8% for the six months ended 30 June 2015 from 45.2% in 2014.

Distribution Costs and Administrative Expenses

Distribution costs increased to RMB63,910,000 for the six months ended 30 June 2015 from RMB54,523,000 recorded during the same period in 2014 representing an increase of approximately 17.2%. Administrative expenses increased to RMB54,117,000 for the six months ended 30 June 2015 from RMB46,776,000 recorded during the same period in 2014 representing an increase of approximately 15.7%. The increase in both distribution costs and administrative expenses mainly relates to the increase in depreciation charges, wages and salaries, travelling and transportation, and marketing and advertising expenses accounting for approximately 28.5%, 20.9%, 6.9% and 14.1% respectively. These increases mainly attributable to the new stores that opened during the period, which is in line with the increase in the business as distribution costs and administrative expenses while a percentage of revenue decreased to 5.5% when compared to the 5.7% recorded for the year ended 31 December 2014. At the end of June 2015, the Group had 19 operating subsidiaries and 13 stores under construction. The administrative expenses of these stores that were under construction which could not be capitalized such as land leases or amortization, the salary and wages of the store's general manager, sales manager or after-sales manager that have been assigned/deployed for these new stores were charged to the income statement. As these stores 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.

Net finance costs

Included in net finance costs is a one-off compensation payment to bondholders relating to the issue of new shares (for details on the placement of shares, please refer to the paragraph “Placing of Shares” below) of RMB9,099,000. Net finance costs, excluding the compensation payment increased by 20.8% to RMB32,941,000 for the six months ended 2015 from RMB27,266,000 recorded during the same period in 2014. The increase is mainly attributable by the new stores that opened during the period, which is in line with the increase in the business as finance costs as a percentage of revenue decreased to 1.5% when compared to the 1.6% recorded for the year ended 31 December 2014.

Other Income

Other income decreased from RMB15,405,000 for the six months ended 30 June 2014 to RMB10,039,000 for the six months ended 30 June 2015, representing a decrease of approximately 34.8%. The decrease is attributable by a slight decrease in insurance commission, a decrease in interest income from bank deposits and a loss on disposal of property, plant and equipment.

Associated Company and Joint Venture Company

Share of results of associated company and share of results of Joint Venture increased by approximately 43.1% from RMB7,327,000 for the six months ended 30 June 2014 to RMB10,484,000 for the six months ended 30 June 2015. The increase is mainly attributable by the higher profit achieved during the period.

Taxation

Taxation decreased significantly from RMB27,387,000 for the six months ended 30 June 2014 to RMB15,869,000 for the six months ended 30 June 2015, representing a decrease of approximately 42.1%. The effective tax rate also decreased from 26.5% for the six months ended 30 June 2014 to 22.7% for the six months ended 30 June 2015. The decrease in the effective tax rate relates to better tax planning implemented by the Group during the period. The Group’s PRC subsidiaries are subject to a tax rate of 25%.

Absorption Rate

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

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

An absorption rate of 100%, or close to 100%, indicates that the dealership’s operating costs can essentially be supported by after sales services alone. For the six months ended 30 June 2015, our absorption rate for the Group was at 99.6%, representing a slight increase from 95.3% for the year ended 31 December 2014.

Use of Proceeds from Listing of the Company's Shares on the SEHK

On 5 December 2013, the Company's ordinary shares were successfully listed on the SEHK 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 of 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 30 June 2015, the use of proceeds is as follows:

Purpose	Per Prospectus	Utilized	Remaining
New Dealership Stores	RMB158,303,500	RMB158,303,500	Nil
Acquisition	RMB94,982,100	Nil	RMB94,982,100
New Businesses	RMB31,660,700	RMB6,000,000	RMB25,660,700
Working Capital	RMB31,660,700	RMB31,660,700	Nil
Total	RMB316,607,000	RMB195,964,200	RMB120,642,800

Financial Resources and Position

As at 30 June 2015, the Group's borrowings amounted to RMB802,137,000, representing an increase of approximately 9.9% from RMB729,610,000 as at 31 December 2014, of which approximately RMB603,385,000 were short term, RMB129,726,000 were long term and the remaining is the corporate bonds due 2018 of RMB69,026,000 (please refer to note 16 above or paragraph "Issue of Bonds and Warrants" below for details). As at 30 June 2015, the Group had a current ratio of 1.2 times and a gearing ratio of (total borrowings less cash and cash equivalents and bank deposits divided by equity attributable to shareholders of the Company) of 7.5%. As at 30 June 2015, total banking and other financial institution facilities available to the Group amounted to RMB2,997,904,000 of which approximately RMB1,101,468,000 have been utilized.

Cash and cash equivalents and bank deposits amounted to RMB748,286,000 as at 30 June 2015, of which RMB369,408,000 has been pledged for securing banking and other financial institutions facilities granted to the Group and RMB156,367,000 was time deposit. 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.

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 30 June 2015.

BUSINESS REVIEW

The first half of 2015 continued to be challenging with a weak economy and lower new car sales gross profit margin resulted in lower gross profit. However, MeiDong, through our determined management team managed to continue to enjoy a healthy revenue growth in both new car sales as well as after sale services.

New Passenger Vehicle Sales

New passenger vehicle sales accounted for approximately 88.9% of total revenue during the six months ended 30 June 2015, which also includes the sales of bundled accessories that are included in the sales of new passenger vehicles. However there was a significant shift in contribution from luxury brands from 37.9% recorded during the six months ended 30 June 2014 to 51.0% for the first half in 2015. The Group sold a total of 9,012 units of new passenger vehicles during the six months ended 30 June 2015, representing an increase of approximately 13.8% from the 7,922 units sold during the same period in 2014.

New passenger vehicle sales enjoyed a healthy growth during the six months ended 30 June 2015. Other than Toyota which decreased by 1.8% or 89 units when compared to the same period in 2014, other brands enjoyed healthy growths with BMW being the highest at 51.5%, Hyundai at 17.7%, Lexus at 9.8% and our first Porsche store having a first full six months of operations since its commencement of trial operations in October 2014 sold 390 units.

The overall gross profit margin for new vehicle sales decreased from 5.3% for the year ended 31 December 2014 to 4.9% for six months ended 30 June 2015 with mid-to-high-end brands decreasing from 5.1% to 4.0% and luxury brands (including Porsche) decreasing from 5.6% to 5.5%. The decrease in the gross profit margin is primarily due to the much higher margins recorded in the first half of 2014 therefore giving the full year 2014 a reasonable figure although the margin for second half of 2014 was much worse. The margins recorded for the six months ended 30 June 2015 was much better than the second half of 2014 mainly due to the control of the supply by manufacturers thus resulting in a much better balance between supply and demand therefore stable margins. We expect this trend will continue in the second half of this year.

After Sales Services

After sales services accounted for approximately 11.1% of our total revenue during the six months ended 30 June 2015. 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 104,554 units after sales services for the six months ended 30 June 2015, representing an increase of approximately 4.4% from the 100,177 units serviced during the same period in 2014.

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 2014 and in 2015 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 Toyota, all brands enjoyed healthy increases in the ASP for services. The overall ASP (including service fees received from license registration services and commission received from the brokerage of financial services) increased to RMB2,268 per service for the six months ended 30 June 2015 from RMB1,982 per service during the same period last year, representing an increase of approximately 14.4%. With the exception of Toyota, the gross profit margin has remained quite stable for all brands during the six months ended 30 June 2015 when compared with the same period last year. The after sales services gross profit margin for Toyota decreased slightly.

New Store Openings

During the period, two stores were opened taking the number of operating 4S dealership stores to 21 (19 subsidiary stores, one joint venture store that is operated by us and an associate store). One new Lexus store was opened in the city of Longyan, Fujian Province and one new BMW stores in the city of Yueyang. Currently we are working to open another five stores this year bringing the total of stores opening in 2015 to seven stores, representing an increase of 36.8%. The five new stores include one Porsche store (Shantou, Guangdong Province), one Lexus store (Foshan, Guangdong Province), one Toyota stores (Zhongtang, Guangdong Province), and two BMW stores (Huanggang, Hubei Province and Jingdezhen, Jiangxi Province).

New Projects and Acquisitions

During the six months ended 30 June 2015, we entered into a joint venture in a Lexus in the city of Foshan in the Guangdong Province of the PRC ("Foshan Lexus"). In addition, on 20 August 2015, we entered into an equity transfer agreement to acquire a Toyota dealership store in the city of Xinyu in the Jiangxi Province of the PRC ("Xinyu Toyota") and a framework agreement to set up the new company in the city of Jiujiang, Jiangxi Province of the PRC ("Jiujiang Toyota") to take over the business of an existing Toyota dealership by acquiring some of the fixed assets and renting the business premises and equipment of that store. For details of the acquisitions, please refer to the announcement issued by the Company on 20 August 2015.

Foshan Lexus

We entered into a joint venture agreement with an Independent Third Party on 20 May 2015 for the establishment of a joint venture company in Foshan, Guangdong Province of the PRC to open a new 4S car dealership store for the brand of Lexus. The total registered capital of the joint venture company is RMB30,000,000 of which 60% and 40% will be owned by the Company and the joint venture partner respectively. The new store will provide a comprehensive array of automobile-related products and services, including the sale of vehicles, after-sales repair and maintenance services, sale of spare parts and accessories and other value-added services. Foshan Lexus will be the Group's eighth Lexus store. Foshan located in the Guangdong Province and according to the Guangdong Bureau of Statistics, Foshan has a population of more than 7 million and recorded a GDP of RMB760.3 billion in 2014.

Xinyu Toyota

On 20 August 2015, MeiDong entered into the equity transfer agreement to acquire the entire equity interest in Xinyu Toyota at a consideration equal to the sum of (i) RMB9,200,000, (ii) the net current asset value of Xinyu Toyota as at 31 August 2015, and (iii) the net book value of the test drive cars of Xinyu Toyota as at 31 August 2015. Xinyu is located in the Jiangxi Province and according to the Jiangxi Bureau of Statistics, Xinyu has a population of more than 1.2 million and recorded a GDP of RMB90 billion in 2014.

Jiujiang Toyota

On 20 August 2015, MeiDong entered into a framework agreement to take over the business of an existing Toyota dealership by acquiring some of the fixed assets and renting the business premises and equipment of that store. Jiujiang is located in the Jiangxi Province and according to the Jiangxi Bureau of Statistics, Jiujiang has a population of more than 4.8 million and recorded a GDP of RMB178 billion in 2014.

Acquisition Strategy

We believe that the current environment in the automobile dealership market in the PRC is an ideal ground for the Group to carry out merge and acquisition activity as a good majority of automobile dealerships in the PRC are currently unprofitable, for a variety of reasons. For example, poor inventory management practices in what has become an increasingly competitive new car sales environment can lead to overbearing financial costs and negative sales margins, with many automobile dealerships saddled with ageing inventories. Automobile dealership groups which have not had a history of providing efficient after sales services have also seen their operations suffer tremendously. We have recently come across dealerships with customer loss ratios as high as 40% while some others were reportedly generating after sales services gross margins as low as 10%. Notwithstanding these company specific reasons, the credit crunch in the PRC's banking sector, the slowdown of the economy of the PRC, and the problematic Chinese real estate sector have also contributed materially to a weaker auto market, bringing more and more dealerships to the brink of insolvency.

The Group will continue to look to acquire automobile dealerships/dealership groups which represent brands that the Group is familiar with (mid brands and main stream luxury), prioritise locations that are near to the Group's currently areas of operations and strengthened by past experience and successes with our "Single City Single Store" operating model. The Group will continue to focus on acquiring sole dealerships in 3rd and 4th tier cities.

We will look at our acquisitions based on our estimation of the "projected" bottom-line performance of the acquired targets over a 12 to 18 month horizon. The "projected" valuation will be based on a 50% discount to our existing store net margins of a similar profile. To illustrate, we may acquire a 4-year old Toyota dealership with a historical -2% net margin but at a valuation based on our expectation of turning the operations around to yield a 1% net margin (50% of the 2% net margin of a similar Toyota Meidong dealership in the same region) after 12 to 18 months of takeover of operations. This "projected" bottom-line, together with a discounted PE versus our listed valuation, forms part of the basis of our negotiation with owners of the target.

We are also keen to assess the viability of a “rental” model, which in some cases will not require any upfront cash payment. In such cases, we will propose to “rent” the distressed dealerships instead of buying them. As per the previous example, we will look to use a comparable dealership – rental (depreciation if self-owned) of land and facilities of a dealership of similar location, brand, and size – to form the basis of the “rental” rate. We are excited about this type of collaboration given that it will be a win-win situation for the existing owners who will be guaranteed an income, and for Meidong group who will be able to increase our top and bottom-line within 12-18 months without upfront cash investment.

The Group is currently negotiating with candidates ranging from single dealerships, small dealership groups with fewer than 5 stores and sizable groups which could dramatically change the Group’s total store count. With a strong balance sheet and continuous efforts to improve operating performance of existing stores and emphasis on the use of data analytics, the Directors are confident that they will be able to guide the Group towards a strong and steady growth path going forward.

Notwithstanding the current weak spell, the Group firmly believes in the vast potential of the auto dealership market in the PRC over the longer term. As such, the current market conditions is providing the Group with a unique opportunity to grow acquisitively. The Group will nevertheless be careful always in the assessment of potential acquisition targets.

Issue of Bonds and Warrants

On 21 January 2015, the Company entered into a subscription agreement with Asian Equity Special Opportunities Portfolio Master Fund Limited and PA Venture Opportunity IV Limited (together the “Subscribers”), the Subscribers pursuant to which agreed to subscribe for the Bonds in an aggregate principal amount of HK\$101,400,000 issued by the Company. Warrants were also issued (for no additional payment) to the Subscribers. The warrants will be denominated in RMB and the initial subscription price for the warrants is RMB1.883 (equivalent to HK\$2.383) per warrant share (subject to adjustment in accordance with the terms and conditions of the warrants). Upon full exercise of the warrants, 62,773,614 ordinary shares of the Company will be issued. The Warrants are not attached to the Bonds and the Warrants and the Bonds are transferable separately. The issuance of the bonds and warrants was completed on 9 March 2015.

The net proceeds from the issuance of the bonds (after deducting all the related costs and expenses) of approximately HK\$100,935,000 will be used for the opening of new 4S dealership stores of the Group in the PRC and general working capital of the Group.

Please refer to the announcement issued by the Company dated 21 January 2015.

Placing of Shares

On 29 May 2015, the Company entered into a placing agreement to place a total of 100,000,000 shares of the Company at a price of HK\$1.83 per share to placees, who and whose ultimate beneficial owner(s) are third parties independent of the Company and its connected persons and are independent of, and not acting in concert (as defined under the Takeovers Code).

The net proceeds (after deducting commission paid other expenses relating to the placing) from the placing was approximately HK\$176,396,000 and approximately 80% of the net proceeds will be used for acquisition of 4S dealership stores and for the construction of new 4S dealership stores with the remaining 20% of the net proceeds to be used as general working capital. The placing was completed on 3 June 2015, please refer to the announcement issued by the Company dated 1 June 2015.

Staff Training and Development

As at 30 June 2015, the Group had a total of 1,950 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.

Prospects

In the second half of 2015, through organic expansion, MeiDong Auto will strive for continuous improvement in business operational efficiency, diversification in product and service categories and the development of new auto-related areas, in order to build a solid foundation for the sustainable and healthy business development for the future.

We expect to have at least five new stores opening later this year, including our second Porsche dealership store, which will further optimize our brand and regional structure.

We will continue to look for acquisition opportunities in the second half of 2015 whether it is outright acquisitions or through the less capital required of the rental model.

We will continue to improve sales efficiency, increase after-sales service pre-appointment rate, improve the level of service satisfaction, reduce customer lost ratio, extend customers spending life-cycle, and optimize revenue and cost structure by diversifying and completing product categories in the areas of auto finance, auto accessories, used car, car repair and services and continuously improving our data-driven operational management system.

We will look for new growth and business opportunities in the auto-related industry by setting foot in car finance leases, used car auctions, auto parts distribution and online commerce.

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 six months ended 30 June 2015.

Corporate Governance

Save as disclosed below, 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 six months ended 30 June 2015.

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 2015.

Audit Committee

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

An Audit Committee meeting was held on 25 August 2015 to review the unaudited interim financial report for six months ended 30 June 2015. KPMG, the Group's external auditor, has carried out a review of the unaudited interim financial report for the six months ended 30 June 2015 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

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2015.

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, 25 August 2015

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 PAN Lu

Mr WANG, Michael Chou

Mr JIP Ki Chi