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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 liability)

(Stock code: 1268)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Compared with the first six months of 2016, revenue increased from RMB2,598.3 million to RMB3,332.3 million in the first six months of 2017, representing an increase of 28.2%.

- Compared with the first six months of 2016, overall gross profit increased from RMB253.1 million to RMB371.3 million in the first six months of 2017, while the overall gross profit margin increased substantially by 1.4% to 11.1%.

- Compared with the first six months of 2016, profit after taxation attributable to shareholders of the Company increased from RMB62.5 million to RMB107.9 million in the first six months of 2017, representing an increase of 72.6% with net profit margin increased by 0.8% to 3.2%.

- Declared interim dividend of RMB0.035 per ordinary share.

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 2017.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited

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

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

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 24 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any change in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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.

2 CHANGES IN ACCOUNTING POLICIES

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

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

3 SEGMENT REPORTING

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

(i) Information about geographical area

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

(ii) Information about major customers

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

4 REVENUE

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

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

5 OTHER INCOME

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

6 PROFIT BEFORE TAXATION

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

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

		Six months ended 30 June	
		2017	2016
		RMB'000	*RMB'000*

(b) Staff costs:

Salaries, wages and other benefits		**142,154**	95,927
Equity settled share-based payment expenses	*(ii)*	**172**	405
Contributions to defined contribution retirement plans	*(iii)*	**6,747**	3,806
		149,073	100,138

(c) Other items:

Cost of inventories	**2,918,040**	2,320,369
Write down of inventories	**8,293**	–
Depreciation	**31,755**	26,404
Amortisation of lease prepayments	**1,474**	1,474
Amortisation of intangible assets	**1,116**	409
Operating lease charges	**19,207**	12,578
Net foreign exchange (gain)/loss	**(4,503)**	252

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

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

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

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

7 INCOME TAX

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

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

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

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

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

8 EARNINGS PER SHARE

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

Weighted average number of ordinary shares

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

The impact of share options and warrants to earnings per share was anti-dilutive for the six months ended 30 June 2017 and the six months ended 30 June 2016 and therefore there were no dilutive potential ordinary shares during the interim period. As a result, the diluted earnings per share is equivalent to the basic earnings per share.

9 PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Net book value, at 1 January	**621,525**	550,985
Additions	**62,388**	153,773
Disposals	**(25,471)**	(42,993)
Depreciation charge for the period/year	**(31,755)**	(55,228)
Written back on disposals	**12,032**	14,988
At 30 June/31 December	**638,719**	621,525

10 INVENTORIES

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

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

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Six months ended 30 June 2017 *RMB'000*	2016 *RMB'000*
Carrying amount of inventories sold	**2,918,040**	2,320,369
Write down of inventories	**8,293**	–
	2,926,333	2,320,369

11 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
Within 1 month	**29,892**	70,095
1 to 2 months	**3,927**	1,314
2 to 3 months	**301**	140
Over 3 months	**3,547**	3,442
Trade debtors	**37,667**	74,991
Prepayments	**105,450**	123,132
Other receivables and deposits	**317,423**	295,857
Amounts due from third parties	**460,540**	493,980
Amounts due from related parties	**5,949**	3,810
Trade and other receivables	**466,489**	497,790

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

12 PLEDGED BANK DEPOSITS

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

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

13 CASH AND CASH EQUIVALENTS

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

14 LOANS AND BORROWINGS

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

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

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

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

15 TRADE AND OTHER PAYABLES

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

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Within 3 months	**429,372**	495,680
Over 3 months but within 6 months	**26,916**	58,888
Total trade payables and bills payable	**456,288**	554,568
Receipts in advance	**279,960**	226,833
Other payables and accruals	**85,163**	96,010
Amounts due to third parties	**821,411**	877,411
Amounts due to related parties	**5,688**	1,136
Trade and other payables	**827,099**	878,547

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

16 CORPORATE BONDS

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

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

As at 30 June 2017, the balance of corporate bonds represented initial fair value of RMB67,126,000 (31 December 2016: RMB67,126,000) and the amortised interests of RMB33,087,000 (31 December 2016: RMB 29,668,000), deducted by the corresponding interests of RMB2,442,000 (31 December 2016: RMB2,540,000) at the nominal interest rate of 9% on the principal amount of the corporate bonds, which was recorded in trade and other payables.

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

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

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

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

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

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

(b) Equity settled share-based transactions

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

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

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

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

(c) Warrants

On 9 March 2015, the Company issued warrants, which entitled the holders thereof to subscribe up to RMB118,202,715 for 62,774,000 warrant shares at a subscription price of RMB1.883 per warrant share within three years after the issuance date. The fair value of warrants amounting to RMB13,103,000 net of direct warrant issuance expenses of RMB 127,000 was credited to capital reserve during the six months ended 30 June 2015.

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

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

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

19 CONTINGENT LIABILITIES

As at 30 June 2017, one subsidiary of the Group has issued financial guarantees to a financial institution in respect of financial facilities granted to related parties of the Group amounting to RMB178,000,000 (31 December 2016: RMB178,000,000) and the financial facility utilised by the related parties amounted to RMB63,451,000 as at 30 June 2017 (31 December 2016: RMB43,381,000).

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

20 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Exercise of warrants

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

(b) Interim dividend

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

FINANCIAL REVIEW

Revenue

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

Gross Profit

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

Distribution Costs and Administrative Expenses

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

Finance Costs

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

Associated Company and Joint Venture Company

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

Taxation

For the six months ended 30 June 2017, the Group's income tax expenses amounted to RMB40,895,000, an approximately 67.9% increase compared to the total taxation of RMB24,360,000 during the corresponding period in the prior year. The increase of income tax expenses was mainly attributed to the increased profit before tax in the first half of 2017 compared to the same period in the previous year.

Financial Resources and Position

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

As at 30 June 2017, cash and cash equivalents and pledged bank deposits amounted to RMB524,101,000, and most of cash and cash equivalents and pledged bank deposits are dominated in Renminbi and Hong Kong Dollars. As the Group's businesses are conducted in the PRC, therefore the Group does not anticipate to be exposed to any material foreign exchange risks.

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

Contingent Liabilities

As at 30 June 2017, one subsidiary of the Group has issued financial guarantees to a financial institution in respect of financial facilities granted to related parties of the Group amounting to RMB178,000,000 (31 December 2016: RMB178,000,000) and the financial facility utilised by the related parties amounted to RMB63,451,000 as at 30 June 2017 (31 December 2016: RMB43,381,000).

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

BUSINESS REVIEW

Market

New Car Sales

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

After-sales Service

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

Favorable Policies

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

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

Operation

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

Gross Profit

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

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

New passenger vehicle sales

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

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

After-sales service

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

Current network

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

ISSUE OF BONDS AND WARRANTS

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

PLACING OF SHARES

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

NON-COMPETITION UNDERTAKING

Each of the controlling shareholders of the Company (the "Controlling Shareholders") has provided to the Company a written confirmation in respect of his/its compliance with the non-compete undertakings dated 13 November 2013 (the "Non-Compete Undertakings") for the six months ended 30 June 2017. The independent non-executive directors of the Company have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Non-Compete Undertakings and have confirmed that, as far as he/it can ascertain, there is no breach of any of the undertakings in the Non-Compete Undertakings.

STAFF TRAINING AND DEVELOPMENT

As at 30 June 2017, the Group had a total of 3,030 employees. The majority of whom are based in the PRC. In addition to offering competitive remuneration packages to employee, discretionary bonuses and share options may also be granted to eligible employees based on individual performance. The Group advocates simple, direct and data-oriented corporate culture, which becomes one of key elements of attracting talents. The management team of the Group values satisfaction of employees, strives for creating a better working environment and career paths for employees.

STATUS UPDATE FOR RECTIFICATION OF PROPERTIES TITLE DEFECT

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

The Group has no status update on the property title defect for the six months ended 30 June 2017.

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

PROSPECTS OF THE SECOND HALF OF 2017

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

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

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

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

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the six months ended 30 June 2017. 2,500,000 warrants were exercised by Asian Equity Special Opportunities Portfolio Master Fund Limited (the "Warrantholder") pursuant to the warrant instrument issued by the Company dated 9 March 2015 on 25 July 2017 and 2,500,000 shares of the Company were issued to the Warrantholder on the same day.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2017.

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 2017.

AUDIT COMMITTEE

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

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

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

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

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

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
China MeiDong Auto Holdings Limited
YE TAO
Executive Officer

Hong Kong, 24 August 2017

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 WANG Michael Chou
Mr JIP Ki Chi
Mr CHEN Guiyi