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 2019

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2019 increased by 57.4% to RMB6,843.0 million as compared to the same period of 2018. The revenue of passenger vehicles sales and the revenue of after-sales services grew by 59.2% and 45.9% respectively. The contribution from Lexus, BMW, Audi and Porsche brands ("Luxury brands") to the revenue of passenger vehicles sales increased to 80.0%.

- Gross profit for the six months ended 30 June 2019 increased by 45.9% to RMB692.5 million as compared to the same period of 2018 with a gross margin of 10.1%.

- Profit attributable to shareholders for the six months ended 30 June 2019 increased by 49.6% to RMB235.8 million as compared to the same period of 2018. The net profit margin was 3.5%.

- Proposed interim dividend of RMB0.061 per ordinary share, representing 29.9% of the profit attributable to shareholders for the six months ended 30 June 2019.

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 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 — unaudited

	Note	**Six months ended 30 June** **2019** **RMB'000**	2018 *(Note)* *RMB'000*
Revenue	*3*	**6,843,012**	4,346,746
Cost of sales	*5*	**(6,150,481)**	(3,872,115)
Gross profit		**692,531**	474,631
Other income	*4*	**64,236**	68,506
Distribution costs		**(213,654)**	(169,218)
Administrative expenses		**(184,849)**	(142,999)
Profit from operations		**358,264**	230,920
Finance costs	*5(a)*	**(57,685)**	(26,725)
Share of profits of a joint venture		**18,506**	12,950
Profit before taxation	*5*	**319,085**	217,145
Income tax	*6*	**(80,053)**	(56,500)
Profit for the period		**239,032**	160,645
Other comprehensive income for the period		**—**	—
Profit and total comprehensive income for the period		**239,032**	160,645

	Note	**Six months ended 30 June** **2019**	2018
			(Note)
		RMB'000	*RMB'000*
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		**235,751**	157,586
Non-controlling interests		**3,281**	3,059
Profit and total comprehensive income for the period		**239,032**	160,645
Earnings per share	*7*		
Basic (RMB cents)		**20.43**	13.75
Diluted (RMB cents)		**20.30**	13.67

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 — unaudited

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

	Note	At 30 June 2019 RMB'000	At 31 December 2018 (Note) RMB'000
Non-current liabilities			
Loans and borrowings	*14*	**175,400**	143,550
Deferred tax liabilities		**12,883**	14,736
Lease liabilities		**704,694**	—
		892,977	158,286
NET ASSETS		**1,465,200**	1,400,236
EQUITY	*16*		
Share capital		**91,201**	90,978
Reserves		**1,356,340**	1,288,442
Total equity attributable to equity shareholders of the Company		**1,447,541**	1,379,420
Non-controlling interests		**17,659**	20,816
TOTAL EQUITY		**1,465,200**	1,400,236

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

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 21 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any change in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

2 CHANGES IN ACCOUNTING POLICIES

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

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

(a) Changes in the accounting policies

(i) Lessee accounting

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

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

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

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

(b) Transitional impact

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

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

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

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

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

3 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

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

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

All revenue was recognised at a point in time.

(b) Segment reporting

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

(i) Information about geographical area

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

(ii) Information about major customers

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

4 OTHER INCOME

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

5 PROFIT BEFORE TAXATION

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

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

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

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

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

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

6 INCOME TAX

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

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

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

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

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

7 EARNINGS PER SHARE

(a) Basic earnings per share

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

Weighted average number of ordinary shares

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

(b) Diluted earnings per share

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

Weighted average number of shares (diluted)

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

8 PROPERTY, PLANT AND EQUIPMENT

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

9 RIGHT-OF-USE ASSETS

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

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

10 INVENTORIES

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

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**6,076,793**	3,818,186
Write down of inventories	**—**	4,914
	6,076,793	3,823,100

11 TRADE AND OTHER RECEIVABLES

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

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

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

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

12 PLEDGED BANK DEPOSITS

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

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

13 CASH AND CASH EQUIVALENTS

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Cash at banks and in hand	**1,062,270**	866,821

14 LOANS AND BORROWINGS

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

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

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

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

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

15 TRADE AND OTHER PAYABLES

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

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Within 3 months	**742,491**	850,096
Over 3 months but within 6 months	**55,568**	53,823
Total trade payables and bills payable(i)	**798,059**	903,919
Contract liabilities	**517,561**	481,367
Other payables and accruals	**243,804**	158,098
Amounts due to third parties	**1,559,424**	1,543,384
Amounts due to related parties	**6,629**	6,425
Trade and other payables	**1,566,053**	1,549,809

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

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

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

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

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

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

(iii) ***Other dividends***

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

(b) Equity settled share-based transactions

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

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

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

(ii) Share options granted on 4 January 2018

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

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

17 COMMITMENTS

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

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

18 CONTINGENT LIABILITIES

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

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

19 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Equity settled share-based transaction

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

Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. 25% each of these share options will vest on 18 July 2019, 18 July 2020, 18 July 2021, and 18 July 2022, respectively, and they are exercisable until 17 July 2029.

(b) Interim dividend

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

RESULTS ANALYSIS AND FINANCIAL REVIEW

Revenue

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

Cost of Sales

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

Gross Profit

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

Distribution Expenses and Administrative Expenses

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

Finance Cost

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

Profit for the Period Attributable to Shareholders

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

Dividend

The Board of the Company recommended an interim dividend of RMB0.061 per ordinary share for the six months ended 30 June 2019.

A Joint Venture

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

Taxation

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

New Passenger Vehicles Sales

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

After-Sales Services

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

Current Network

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

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

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

Financial Resources and Position

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

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

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

Contingent Liabilities

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

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

OTHER INFORMATION

ISSUE OF BONDS AND WARRANTS

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

PLACING OF SHARES

There is no issue 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 2019. The independent non-executive directors of the Company have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Non-Compete Undertakings and have confirmed that, as far as he/it can ascertain, there is no breach of any of the undertakings in the Non-Compete Undertakings.

STAFF TRAINING AND DEVELOPMENT

As at 30 June 2019, the Group had a total of 4,433 employees. The majority of whom are based in the PRC. In addition to offering competitive remuneration packages to employee, discretionary bonuses and share options may also be granted to eligible employees based on individual performance. The Group advocates simple, direct and data-oriented corporate culture, which becomes one of key elements of attracting talents. The management team of the Group values satisfaction of employees, strives for creating a better working environment and career paths for employees.

STATUS UPDATE FOR RECTIFICATION OF PROPERTIES TITLE DEFECT

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

The Group has no status update on the property title defect for the six months ended 30 June 2019.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

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

An Audit Committee meeting was held on 21 August 2019 and the Audit Committee has reviewed the unaudited interim financial report for six months ended 30 June 2019. KPMG, the Group's external auditor, has carried out a review of the interim financial report for the six months ended 30 June 2019 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to declare an interim dividend of RMB0.061 per ordinary share for the six months ended 30 June 2019 (2018: RMB0.041 per ordinary share). The interim dividend will be paid in cash. Based on the number of shares in issue as at the date of this announcement, a total amount of dividend of approximately RMB70.525 million will be distributed.

The interim dividend will be distributed to shareholders of the Company whose names appear on the register of members of the Company at the close of business on Thursday, 21 November 2019. The register of members of the Company will be closed from Wednesday, 20 November 2019 to Thursday, 21 November 2019 (both days inclusive), during such period no share transfer will be registered. To qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 19 November 2019. The interim dividend will be payable on or about Thursday, 5 December 2019.

Prospects

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

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

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
Chief Executive Officer

Hong Kong, 21 August 2019

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

Executive Directors:
Mr. YE Fan (*Chairman*)
Mr. YE Tao (*Chief Executive Officer*)
Ms. LUO Liuyu

Independent Non-executive Directors:
Mr. CHEN Guiyi
Mr. WANG Michael Chou
Mr. JIP Ki Chi