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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 2020

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2020 increased by 23.5% to RMB8,447.9 million as compared to the same period of 2019.
- The contribution from luxury brands (Porsche, Lexus, BMW and Audi) to the revenue of passenger vehicles sales increased to 84.3%.
- Profit for the six months ended 30 June 2020 grew by 28.5% to RMB307.2 million as compared to the same period of 2019. The net profit margin increased to 3.6%.
- Proposed interim dividend of RMB0.1451 per ordinary share, representing 60% of the profit attributable to shareholders for the six months ended 30 June 2020.

RESULTS

The board (the "Board") of directors (the "Directors") 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 2020 (the "Period" or the "Reporting Period").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020 — unaudited

	Note	Six months ended 30 June	
		2020	2019
		RMB'000	*RMB'000*
Revenue	*3*	**8,447,854**	6,843,012
Cost of sales	*5*	**(7,628,715)**	(6,150,481)
Gross profit		**819,139**	692,531
Other income	*4*	**87,782**	64,236
Distribution costs		**(237,989)**	(213,654)
Administrative expenses		**(216,354)**	(184,849)
Profit from operations		**452,578**	358,264
Finance costs	*5(a)*	**(60,819)**	(57,685)
Share of profits of a joint venture		**18,895**	18,506
Profit before taxation	*5*	**410,654**	319,085
Income tax	*6*	**(103,464)**	(80,053)
Profit for the period		**307,190**	239,032
Other comprehensive income for the period		**—**	—
Profit and total comprehensive income for the period		**307,190**	239,032

	Note	Six months ended 30 June	
		2020	2019
		RMB'000	*RMB'000*
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		**300,775**	235,751
Non-controlling interests		**6,415**	3,281
Profit and total comprehensive income for the period		**307,190**	239,032
Earnings per share	*7*		
Basic (RMB cents)		**25.72**	20.43
Diluted (RMB cents)		**25.42**	20.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 — unaudited

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	8	**1,078,831**	1,035,059
Right-of-use assets	9	**1,301,893**	825,776
Intangible assets		**64,094**	65,308
Interest in a joint venture		**32,081**	55,140
Other non-current assets		**70,966**	104,220
Deferred tax assets		**59,659**	54,472
		2,607,524	2,139,975
Current assets			
Inventories	10	**607,329**	540,509
Trade and other receivables	11	**952,286**	1,158,815
Pledged bank deposits	12	**669,735**	961,729
Cash and cash equivalents	13	**2,381,585**	1,123,892
		4,610,935	3,784,945
Current liabilities			
Loans and borrowings	14	**834,241**	871,215
Trade and other payables	15	**1,777,831**	2,132,165
Income tax payables		**83,007**	92,127
Lease liabilities		**117,833**	84,694
		2,812,912	3,180,201
Net current assets		**1,798,023**	604,744
Total assets less current liabilities		**4,405,547**	2,744,719

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current liabilities			
Loans and borrowings	*14*	**220,397**	240,492
Deferred tax liabilities		**12,993**	8,701
Lease liabilities		**1,139,600**	726,178
		1,372,990	975,371
NET ASSETS		**3,032,557**	1,769,348
EQUITY	*16*		
Share capital		**99,156**	91,383
Reserves		**2,849,944**	1,620,204
Total equity attributable to equity shareholders of the Company		**2,949,100**	1,711,587
Non-controlling interests		**83,457**	57,761
TOTAL EQUITY		**3,032,557**	1,769,348

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 19 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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 the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8, Definition of Material

None of these amendments 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 except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

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	
	2020	2019
	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	**7,487,925**	6,015,151
— After-sales services	**959,929**	827,861
	8,447,854	6,843,012

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	
	2020	2019
	RMB'000	*RMB'000*
Commission income	**61,049**	46,515
Bank interest income	**8,814**	4,640
Management service income	**4,649**	4,914
Net gain on disposal of property, plant and equipment	**8,844**	5,929
Net foreign exchange (loss)/gain	**(195)**	243
Others	**4,621**	1,995
	87,782	64,236

5 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2020	2019
		RMB'000	*RMB'000*
(a) Finance costs:			
Interest on:			
— loans and borrowings		**23,074**	25,489
— lease liabilities		**31,297**	26,009
Total interest expense		**54,371**	51,498
Other finance costs	*(i)*	**6,448**	6,187
Total finance costs		**60,819**	57,685

		Six months ended 30 June	
		2020	2019
		RMB'000	*RMB'000*
(b) Staff costs:			
Salaries, wages and other benefits		**317,491**	269,647
Equity settled share-based payment expenses	*(ii)*	**7,126**	854
Contributions to defined contribution retirement plans	*(iii)*	**2,497**	10,324
		327,114	280,825

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
(c) Other items:		
Cost of inventories	**7,556,508**	6,076,793
Depreciation charge		
— owned property, plant and equipment	**58,472**	52,980
— right-of-use assets	**37,316**	31,206
Amortisation of intangible assets	**2,128**	2,122
Lease expenses	**2,495**	3,647
Net foreign exchange loss/(gain)	**195**	(243)

(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 RMB7,126,000 for the six months ended 30 June 2020 in relation to share options granted to certain employees of the Group pursuant to a share option scheme (six months ended 30 June 2019: RMB854,000) (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 also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

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	
	2020	2019
	RMB'000	*RMB'000*
Current tax:		
Provision for PRC income tax for the period	**104,359**	86,653
Deferred tax:		
Origination of temporary differences	**(895)**	(6,600)
	103,464	80,053

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 2020 is based on the profit attributable to equity shareholders of the Company of RMB300,775,000 (six months ended 30 June 2019: RMB235,751,000) and the weighted average of 1,169,504,000 ordinary shares in issue (six months ended 30 June 2019: 1,153,917,000 ordinary shares) during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2020	2019
Issued ordinary shares at 1 January	**1,158,169,000**	1,153,544,000
Effect of exercise of share options (note 16(b))	**2,434,000**	373,000
Effect of new shares issued (note 16(c))	**8,901,000**	—
Weighted average number of ordinary shares at 30 June	**1,169,504,000**	1,153,917,000

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2020 is based on the profit attributable to equity shareholders of the Company of RMB300,775,000 (six months ended 30 June 2019: RMB235,751,000) and the weighted average of 1,183,438,000 ordinary shares (six months ended 30 June 2019: 1,161,106,000 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 2020.

Weighted average number of shares (diluted)

	Six months ended 30 June	
	2020	2019
Weighted average number of ordinary shares at 30 June	**1,169,504,000**	1,153,917,000
Effect of deemed issue of shares under the employee share option scheme	**13,934,000**	7,189,000
Weighted average number of ordinary shares (diluted) at 30 June	**1,183,438,000**	1,161,106,000

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with original costs of RMB145,063,000 (six months ended 30 June 2019: RMB197,149,000). Items of property, plant and equipment with a net book value of RMB42,821,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB55,061,000), resulting in a gain on disposal of RMB8,844,000 (six months ended 30 June 2019: RMB5,929,000).

9 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group entered into a number of lease agreements for use of buildings and warehouses, and therefore recognised the additions to right-of-use assets of RMB513,434,000 (six months ended 30 June 2019: RMB95,558,000).

During the six months ended 30 June 2020, the Group received rent concessions of RMB761,000 in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19. Total fixed payments, net of rent concessions, of RMB65,916,000 (six months ended 30 June 2019: RMB47,928,000) were paid during the six months ended 30 June 2020.

As disclosed in note 2, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

10 INVENTORIES

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

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
Motor vehicles	**493,641**	431,954
Others	**113,688**	108,555
	607,329	540,509

(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	
	2020	2019
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**7,556,508**	6,076,793

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 2020	At 31 December 2019
	RMB'000	*RMB'000*
Within 1 month	**104,507**	127,021
1 to 2 months	**12,770**	10,684
2 to 3 months	**4,298**	9,316
Over 3 months	**2,058**	4,810
Trade debtors	**123,633**	151,831
Prepayments	**199,319**	350,616
Other receivables and deposits	**624,515**	649,670
Amounts due from third parties	**947,467**	1,152,117
Amounts due from related parties	**4,819**	6,698
Trade and other receivables	**952,286**	1,158,815

(i) 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 2020	At 31 December 2019
	RMB'000	*RMB'000*
Restricted bank deposits pledged in respect of loans and borrowings	**29,315**	48,774
Restricted bank deposits pledged in respect of bills payable	**640,420**	912,955
	669,735	961,729

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 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Cash at banks and in hand	**2,381,585**	1,123,892

14 LOANS AND BORROWINGS

(a) At 30 June 2020, loans and borrowings were repayable as follows:

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Within 1 year or on demand	**834,241**	871,215
After 1 year but within 2 years	**101,484**	86,332
After 2 years but within 5 years	**118,913**	154,160
	220,397	240,492
	1,054,638	1,111,707

(b) At 30 June 2020, loans and borrowings were secured as follows:

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Unsecured borrowings from other financial institutions	**—**	5,528
Unsecured borrowings from a related party	**—**	44,789
	—	50,317
Secured bank loans (i)	**851,275**	814,457
Secured borrowings from other financial institutions (i)	**203,363**	246,933
	1,054,638	1,061,390
	1,054,638	1,111,707

(i) As at 30 June 2020, certain loans and borrowings were secured by property, plant and equipment, right-of-use assets, inventories, trade and other receivables and pledged banks 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 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Within 3 months	**1,002,851**	1,326,106
Over 3 months but within 6 months	**74,446**	37,244
Total trade payables and bills payable (i)	**1,077,297**	1,363,350
Contract liabilities	**521,487**	552,777
Other payables and accruals	**170,937**	208,025
Amounts due to third parties	**1,769,721**	2,124,152
Amounts due to related parties	**8,110**	8,013
Trade and other payables	**1,777,831**	2,132,165

(i) As at 30 June 2020, 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	
	2020	2019
	RMB'000	*RMB'000*
Interim dividend declared after the interim period, of RMB0.1451 per ordinary share (six months ended 30 June 2019: RMB0.061 per ordinary share)	**180,435**	70,525

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.2 per ordinary share (six months ended 30 June 2019: RMB0.0894 per ordinary share)	**232,504**	98,157

(iii) Other dividends

During the six months ended 30 June 2020, a subsidiary of the Group declared and paid dividends of RMB3,573,000 (six months ended 30 June 2019: RMB2,927,000) 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 of the Group 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 (retired with effect from 25 March 2019), 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 2020, 1,350,000 options were exercised (six months ended 30 June 2019: 2,600,000) at a subscription price of HK$1.8 per ordinary share for a total consideration of HK$2,430,000 (equivalent to RMB2,179,000) and consequently, RMB121,000 and RMB2,058,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB771,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of share options.

The number of options granted on 20 January 2014 still outstanding at 30 June 2020 are 2,530,000 (31 December 2019: 3,880,000) which have an exercise price of HK$1.8 (31 December 2019: HK$1.8) and a remaining contractual life of 3.37 years (31 December 2019: 3.87 years).

(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 of the Group 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 (retired with effect from 25 March 2019), 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.

During the six months ended 30 June 2020, 2,490,000 options were exercised (six months ended 30 June 2019: nil) at a subscription price of HK$2.58 per ordinary share for a total consideration of HK$6,424,000 (equivalent to RMB5,844,000) and consequently, RMB227,000 and RMB5,617,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB1,794,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of share option.

The Group recorded equity settled share-base payment expenses of RMB219,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB854,000) (see note 5(b)(ii)).

The number of options granted on 4 January 2018 still outstanding at 30 June 2020 are 7,335,000 (31 December 2019: 9,825,000) which have an exercise price of HK$2.58 (31 December 2019: HK$2.58) and a remaining contractual life of 7.51 years (31 December 2019: 8.01 years).

(iii) Share options granted on 18 July 2019

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 of the Group under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 9,700,000 shares of the Company in aggregate with an exercise price of HK$6.00, among which 230,000 share options were granted to Ms. Luo Liuyu (appointed as an executive director of the Company with effect from 25 March 2019) 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.

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 18 July 2019, 18 July 2020, 18 July 2021 and 18 July 2022, respectively, and be exercisable until 17 July 2029.

During the six months ended 30 June 2020, 512,500 options were exercised at a subscription price of HK$6.00 per ordinary share for a total consideration of HK$3,075,000 (equivalent to RMB2,789,000) and consequently, RMB46,000 and RMB2,743,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB1,206,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of share option.

The Group recorded equity settled share-base payment expenses of RMB4,110,000 for the six months ended 30 June 2020 (see note 5(b)(ii)).

The number of options granted on 18 July 2019 still outstanding at 30 June 2020 are 9,027,500 (31 December 2019: 9,640,000) which have an exercise price of HK$6.00 (31 December 2019: HK$6.00) and a remaining contractual life of 9.04 years (31 December 2019: 9.54 years).

(iv) ***Share options granted on 16 January 2020***

Pursuant to a resolution of the board of directors of the Company passed on 16 January 2020, 1,940,000 share options were granted to certain eligible employees under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 1,940,000 shares of the Company in aggregate with an exercise price of HK$10.80.

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 16 January 2020, 16 January 2021, 16 January 2022 and 16 January 2023, respectively, and be exercisable until 15 January 2030.

The Group recorded equity settled share-base payment expenses of RMB2,797,000 for the six months ended 30 June 2020 (see note 5(b)(ii)).

The number of options granted on 16 January 2020 still outstanding at 30 June 2020 are 1,940,000 which have an exercise price of HK$10.80 and a remaining contractual life of 9.55 years.

(c) Issuance of new shares

On 10 June 2020, the Company issued 81,000,000 new ordinary shares at the subscription price of HK$15.84 per share. The gross proceeds of HK$1,283,040,000 (equivalent to RMB1,168,849,000), net of direct share issuance expenses of HK$20,627,000 (equivalent to RMB18,791,000), were raised, of which RMB7,379,000 and RMB1,142,679,000 was credited to share capital and share premium account, respectively.

17 COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Contracted for	**53,020**	143,022
Authorised but not contracted for	**—**	5,470
	53,020	148,492

18 CONTINGENT LIABILITIES

As at 30 June 2020, 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 2019: RMB80,000,000). As at 30 June 2020, the financial facility utilised by Dongguan Meidong amounted to RMB10,004,000 (31 December 2019: RMB13,069,000).

As at 30 June 2020, 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) 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

In the first half of 2020, China's economy faced severe challenges. The outbreak of COVID-19 and changing macroeconomic environment resulted in the slowdown of consumption with the total retail sales of consumer goods fell by 11.4% year-on-year ("yoy"). The automobile industry was also impacted by these challenges and uncertainties. According to the statistics of the China Association of Automobile Manufacturers, China's overall passenger vehicles sales over the first six months of 2020 decreased by 22.4% yoy to 7.873 million units, among which the sales of basic passenger cars ("sedans") decreased by 25.9% to 3.68 million units, and sports utility vehicles ("SUVs") decreased by 14.9% yoy to 3.68 million units. Despite the overall weakness of the automobile market, China's luxury car market remained relatively resilient. The sales of luxury cars in China over the first half of 2020 decreased by 6% yoy to approximately 1.41 million units while the market share continued to increase. According to the statistics of the China Passenger Car Association, during the Period, the overall market share of the luxury segment increased by 3.1 percentage points to 13.7% compared to the same period last year. With the gradual improvement of the COVID-19 situation, the automobile market in China started to see solid recovery since March 2020 and resumed growth in May 2020 as compared with the same period last year. The luxury segment has been leading the recovery of the overall automobile market in terms of consumption demand momentum. Based on the statistics of China Passenger Car Association, the luxury car market recorded a 27% growth in June 2020 compared to the same period of last year, while the market share reached its historical high to 14.8%.

Business and Financial Review

The Group maintained growth and efficiency in the extreme environments in the first half of 2020. During the Period, the revenue, profit and operating cash flow of the Company recorded stable growth. The balance sheet of the Company remained healthy and strong with the inventory turnover days reaching its historical low. The development plan was also well on track.

Revenue

During the Period, the Group recorded a revenue of approximately RMB8,447.9 million (first half of 2019: approximately RMB6,843.0 million), representing an increase of approximately 23.5% yoy. Revenue from new passenger vehicles sales increased by approximately 24.5% yoy to approximately RMB7,487.9 million (first half of 2019: approximately RMB6,015.2 million), accounting for approximately 88.6% (first half of 2019: approximately 87.9%) of total revenue, while revenue from after-sales services increased by approximately 16.0% yoy to approximately RMB960.0 million (first half of 2019: approximately RMB827.8 million), accounting for approximately 11.4% (first half of 2019: approximately 12.1%) of total revenue.

Cost of Sales

Cost of sales increased by 24.0% yoy from approximately RMB6,150.5 million for the first half of 2019 to approximately RMB7,628.7 million for the Period. The increase in cost of sales was mainly attributable to the growth of the two major businesses of the Group, being new passenger vehicles sales and after-sales services. The cost of sales of new passenger vehicles sales and after-sales services grew by approximately 24.6% and approximately 16.8%, respectively.

Gross Profit

During the Period, the Group's gross profit increased by approximately 18.3% yoy from approximately RMB692.5 million for the first half of 2019 to approximately RMB819.1 million, driven by steady growth in total revenue. The overall gross profit margin remained stable, recording a modest decline of 0.4 percentage points to approximately 9.7%, among which the gross profit margin of new vehicles sales decreased slightly by 0.1 percentage point to approximately 4.9% (first half of 2019: approximately 5.0%) and that of after-sales services decreased by 0.4 percentage points from approximately 47.4% for 2019 to approximately 47.0%.

Costs and Expenses

During the Period, the Group was able to enhance its operational efficiency. Distribution costs amounted to approximately RMB238.0 million, accounting for approximately 2.8% of total revenue, representing a 0.3 percentage point decrease as compared to the approximately 3.1% for the same period of last year. Administrative expenses amounted to approximately RMB216.4 million, or approximately 2.6% of total revenue, a decrease of 0.1 percentage point as compared to approximately 2.7% for the same period of last year. Meanwhile, finance costs amounted to approximately RMB60.8 million, decreasing by 0.1 percentage point from approximately 0.8% for the same period of last year to approximately 0.7% as a percentage of revenue.

Taxation

During the Period, the Group's income tax expenses amounted to approximately RMB103.5 million, representing an increase of approximately 29.2% as compared to approximately RMB80.1 million for the same period of last year. The increase in income tax expenses was mainly due to the increase in total revenue.

Profit for the Period Attributable to Shareholders

Group was able to maintain a high operational efficiency amidst the challenging environment of the overall automobile market. Coupled with effective cost control initiatives, the Group's profit attributable to shareholders for the Period increased by approximately 27.6% to approximately RMB300.8 million (first half of 2019: approximately RMB235.8 million). Net profit margin attributable to shareholders for the Period increased by 0.2 percentage point from approximately 3.4% for the first half of 2019 to approximately 3.6%.

Dividend

The Board recommended an interim dividend of RMB0.1451 per ordinary share for the Period (first half of 2019: RMB0.061 per ordinary share), with the payout ratio reaching 60.0%, representing a yoy increase of 30.1 percentage points (first half of 2019: payout ratio 29.9%).

A Joint Venture

During the Period, share of profit of a joint venture amounted to approximately RMB18.9 million, representing an increase of approximately 2.2% as compared to approximately RMB18.5 million for the same period of last year.

New Passenger Vehicles Sales

During the Period, through same store sales growth and new-store expansion, the Group still recorded a strong growth in new passenger vehicles sales amidst the challenging environment. In the first half of 2020, despite the significant reduction in customer foot traffic, the Group was still able to achieve sales growth through a higher customer conversion rate and other measures while further reducing its inventory turnover to 12 days. Revenue of new passenger vehicles sales amounted to approximately RMB7,487.9 million (first half of 2019: approximately RMB6,015.2 million), indicating an increase of approximately 24.5% as compared to the same period of last year. Luxury brands remained as the major revenue source of the Group, accounting for 84.3% of total new passenger vehicles sales. Specifically, BMW, Porsche, Lexus and Audi recorded sales of new passenger vehicles of approximately RMB2,978.4 million, RMB1,544.5 million, RMB1,726.1 million and RMB57.1 million respectively, accounting for approximately 39.8%, 20.6%, 23.1% and 0.8% of new passenger vehicles sales respectively. In terms of sales volume, the Group sold 23,691 new passenger vehicles in total during the Period, representing an increase of 7.9% yoy in sales volume.

After-Sales Services

During the Period, revenue of after-sales services reached approximately RMB960.0 million, representing an increase of approximately 16.0% (first half of 2019: approximately RMB827.8 million) compared to the same period of last year. The total number of vehicles served was 227,744, representing an increase of approximately 8.7% yoy. The gross profit margin of this segment remained stable at approximately 47.0%.

Current Network

The Group continued to execute its highly effective "Single City Single Store" strategy for its luxury brands to further expand its distribution network. In the first half of 2020, we opened 2 new stores. As at 30 June 2020, the Group had 60 self-operated stores in provinces and cities such as Beijing, Hebei, Hubei, Hunan, Jiangxi, Fujian, Guangdong, Gansu, Anhui and Shandong including a joint venture operated by the Group.

As at 30 June 2020, the number of stores operated by the Group is as follows:

Number of stores under operation	First half of 2020	First half of 2019	Change
Porsche	7	6	+1
BMW	24	23	+1
Lexus	15	11	+4
Toyota	12	12	—
Hyundai	1	1	—
Audi	1	1	—
Total	60	54	+6

Liquidity, Financial Resources and Position

As at 30 June 2020, total equity of the Group amounted to approximately RMB3,032.6 million (31 December 2019: approximately RMB1,769.3 million). As at 30 June 2020, the current asset of the Group amounted to approximately RMB4,610.9 million (31 December 2019: approximately RMB3,784.9 million) while current liability amounted to approximately 2,812.9 million (31 December 2019: approximately RMB3,180.2 million).

As at 30 June 2020, the Group's loans and borrowings amounted to RMB1,054,638,000 (with fixed rate loans of RMB536,222,000), representing a decrease of approximately 5.1% as compared to RMB1,111,707,000 as at 31 December 2019. Short-term loans and borrowings amounted to RMB834,241,000, and long-term loans and borrowings amounted to RMB220,397,000. The Group's loans and borrowings were principally denominated in Renminbi. The gearing ratio (being the total loans and borrowings divided by total equity attributable to equity shareholders of the Company) was approximately 35.8% as at 30 June 2020 (31 December 2019: approximately 65.0%).

As at 30 June 2020, cash and cash equivalents and pledged bank deposits amounted to RMB3,051,320,000. Most of the cash and cash equivalents and pledged bank deposits were denominated in Renminbi and Hong Kong Dollars. Apart from part of the cash denominated in Hong Kong Dollars, the Group's business operations in China and major transactions are all denominated in Renminbi. Therefore, the Group expects its foreign exchange risks to be low and will have no material adverse effect on its normal operations. For the Period, the Group did not employ in any significant financial instruments such as forward foreign exchange contracts for foreign exchange hedging purposes, nor did it employ any major financial instruments for hedging purposes. The management of the Group will closely monitor foreign exchange risks and will consider measures to hedge potential major foreign exchange risks when necessary.

The operating and capital expenditure of the Group is funded by cash flow from 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 2020, one subsidiary of the Group issued financial guarantee to a non-bank financial institution in respect of financial facilities granted to a related party of the Group amounting to RMB80,000,000 (31 December 2019: RMB80,000,000). As at 30 June 2020, the financial facilities utilised by the related party amounted to RMB10,004,000 (31 December 2019: RMB13,069,000).

As at 30 June 2020, the Directors do not consider it probable that a claim will be made pursuant to the above guarantee.

Treasury Policy

The Group has adopted a prudent treasury policies and had maintained a healthy liquidity position throughout the Period. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements from time to time.

Significant Investments, Material Acquisitions and Disposals

During the Period, the Group had no significant investments held, nor material acquisitions and disposals of subsidiaries, associates or joint ventures.

Pledged Assets of the Group

As at 30 June 2020, the Group used property, plant and equipment, right-of-use assets, inventories, trade and other receivables, and pledged bank deposits of RMB488,372,000 (31 December 2019: RMB491,968,000) as collateral for certain loans and borrowings.

Prospects

The Group will continue to pursue optimal efficiency and revenue mix, as well as to uphold our discipline in balance sheet and cashflow management in order to cope with uncertainties and risks. The Group will also actively explore potential merger and acquisition opportunities with the criteria of: (1) familiar brands; (2) reasonable valuation; and (3) appropriate locations to accelerate business growth. We will maintain our prudent management approach and our core development strategy — focus on luxury brands and "Single City Single Store", to ensure sustainable long term development with strong return on investment.

IMPORTANT EVENTS AFTER THE PERIOD

Save as disclosed in note 19 to the unaudited interim financial report of the Company, no important events affecting the Group has occurred since the end of the Period.

OTHER INFORMATION

ISSUE OF BONDS AND WARRANTS

There is no issue of bonds or warrants in the Period.

PLACING OF SHARES

Save as disclosed in the section headed "Significant events" in this announcement below, there is no issue or placing of shares in the current period.

NON-COMPETITION UNDERTAKING

Each of the controlling shareholders of the Company (the "Controlling Shareholders") has provided to the Company a written confirmation in respect of his/its compliance with the non-compete undertakings dated 13 November 2013 (the "Non-Compete Undertakings") for the six months ended 30 June 2020. 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 2020, the Group had a total of 4,763 employees (31 December 2019: 4,746), the majority of whom are based in the PRC. The total staff costs of the Group for the Period amounted to approximately RMB327,114,000 (for the six months ended 30 June 2019: approximately RMB280,825,000). In addition to offering competitive remuneration packages to employee, discretionary bonuses and share options which may be granted to eligible employees based on individual performance, the Group advocates simple, direct and data-oriented corporate culture, which has become 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 2020.

The Group will promptly announce the progress of the relevant matters in accordance with relevant regulations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as the Top-up Placing (as defined below), 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 2020.

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 2020.

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 2020.

SIGNIFICANT EVENTS

Placing of existing shares of the Company (the "Shares") by a Controlling Shareholder

On 17 April 2020, Apex Sail Limited ("Apex Sail"), a Controlling Shareholder of the Company, and Mr. Ye Fan have entered a placing agreement with Goldman Sachs (Asia) L.L.C., ("Goldman Sachs", as the placing agent), pursuant to which Goldman Sachs has agreed to place 51,688,000 Shares held by Apex Sail, representing approximately 4.45% of the issued share capital of the Company as at the date of the relevant placing agreement, at the price of HK$12.82 per Share. The completion of the said placing has taken place on 21 April 2020 and immediately after that, Apex Sail held 702,712,000 Shares, representing approximately 60.57% of the then issued share capital of the Company. For further details, please refer to the announcements of the Company dated 17 April 2020 and 21 April 2020.

Placing of existing Shares and top-up subscription for new Shares under general mandate

On 3 June 2020, the Company, Apex Sail, and Goldman Sachs and Merrill Lynch (Asia Pacific) Limited (together, the "Placing Agents") entered into a placing and subscription agreement (the "Placing and Subscription Agreement"), pursuant to which (i) Apex Sail has agreed to appoint the Placing Agents, and the Placing Agents have agreed on a several basis, to act as agents for the purpose of procuring, the placees to purchase, or failing which to purchase themselves, 81,000,000 placing Shares ("Placing Shares") at the placing price (the "Placing Price") of HK$15.84 per Share (the "Placing"); and (ii) Apex Sail has agreed to subscribe for, and the Company has agreed to issue to Apex Sail, 81,000,000 subscription Shares (the "Subscription Shares") at the subscription price of HK$15.84 per Share (being the same as the Placing Price) (the "Subscription"). The Directors consider that the Placing and the Subscription (the "Top-up Placing") will strengthen the capital base of the Company.

On 5 June 2020, the Placing Shares have been successfully placed at the Placing Price by the Placing Agents to not fewer than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons, pursuant to the terms and conditions of the Placing and Subscription Agreement. Further, as all the conditions of the Subscription have been fulfilled, the Company allotted and issued 81,000,000 Subscription Shares (equal to the number of the Placing Shares successfully placed under the Placing) to Apex Sail at HK$15.84 per Subscription Share on 10 June 2020. The Subscription Shares represent approximately 6.51% of the then issued share capital of the Company as at 10 June 2020.

The Placing Price represented:

1. a discount of approximately 9.90% to the closing price of HK$17.58 per Share as quoted on the Stock Exchange on 2 June 2020, being the trading day prior to the date of the Placing and Subscription Agreement;

2. a discount of approximately 7.26% to the average closing price of approximately HK$17.08 per Share as quoted on the Stock Exchange for the five consecutive trading days prior to the date of the Placing and Subscription Agreement;

3. a discount of approximately 4.92% to the average closing price of approximately HK$16.66 per Share as quoted on the Stock Exchange for the ten consecutive trading days prior to the date of the Placing and Subscription Agreement; and

4. a premium of approximately 5.74% to the average closing price of approximately HK$14.98 per Share as quoted on the Stock Exchange for the 30 consecutive trading days prior to the date of the Placing and Subscription Agreement.

The gross proceeds from the Subscription were approximately HK$1,283,040,000 (equivalent to approximately RMB1,168,849,000) and the net proceeds (after deducting all applicable costs and expenses, including commission and levies) were approximately HK$1,262,000,000. On such basis, the net price per Placing Share was approximately HK$15.58.

Set out below is the details of the use of net proceeds from the Top-up Placing during the Period:

Intended use of net proceeds	**Percentage of total net proceeds**	**Net proceeds utilised during the six months ended 30 June 2020**	**Unutilised net proceeds as at 30 June 2020** *(HK$)*	**Expected timeframe for utilising the remaining unutilised net proceeds** *(Note)*
Opportunistic mergers and acquisitions purpose	70%	nil	883,400,000	10 June 2020 – 9 June 2021
General working capital of the Group	30%	nil	378,600,000	10 June 2020 – 9 June 2021
Total	100%	nil	1,262,000,000	—

Note:

The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

For further details, please refer to the announcements of the Company dated 3 June 2020 and 10 June 2020.

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 19 August 2020 and the Audit Committee has reviewed the unaudited interim financial report for the six months ended 30 June 2020. KPMG, the Group's external auditor, has carried out a review of the interim financial report for the six months ended 30 June 2020 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 RMB0.1451 per ordinary share for the six months ended 30 June 2020 (2019: RMB0.061 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 RMB180.4 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, 10 September 2020. The register of members of the Company will be closed from Wednesday, 9 September 2020 to Thursday, 10 September 2020 (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, 8 September 2020. The interim dividend will be payable on or about Thursday, 24 September 2020.

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, 19 August 2020

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