润东汽车

China Rundong Auto Group Limited
中國潤東汽車集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1365)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2017

The board (the "**Board**") of directors (the "**Directors**") of China Rundong Auto Group Limited 中國潤東汽車集團有限公司 (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**", "**our Group**", "**we**" or "**us**") for the six months ended June 30, 2017 (the "**Period Under Review**"), as follows:

FINANCIAL HIGHLIGHTS

For the Period Under Review:

- Revenue increased by 18.1% to RMB9,292.9 million as compared with the same period of 2016.
- Sales revenue from new automobiles increased by 19.7% to RMB8,191.8 million as compared with the same period of 2016.
- After-sales service revenue increased by 7.0% to RMB1,101.1 million as compared with the same period of 2016.
- Commission income increased by 45.8% to RMB176.2 million as compared with the same period of 2016.
- Profit attributable to owners of the parent increased by 13.7% to RMB125.2 million as compared with the same period of 2016.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2017

	Notes	**2017** **RMB'000** **(Unaudited)**	2016 *RMB'000* (Unaudited)
REVENUE	*4(a)*	**9,292,905**	7,871,545
Cost of sales	*5(b)*	**(8,612,503)**	(7,119,720)
Gross profit		**680,402**	751,825
Other income and gains, net	*4(b)*	**192,495**	136,257
Selling and distribution costs		**(221,263)**	(218,482)
Administrative expenses		**(238,845)**	(226,521)
Other expenses		**(6,702)**	(40,266)
Finance costs	*6*	**(204,743)**	(216,117)
Profit before tax	*5*	**201,344**	186,696
Income tax expense	*7*	**76,142**	(70,140)
Profit for the period		**125,202**	116,556
Profit for the period attributable to:			
Owners of the parent		**125,202**	110,158
Non-controlling interests		**–**	6,398
		125,202	116,556
Earnings per share attributable to ordinary equity holders of the parent:			
Basic (RMB)	*8*	**0.13**	0.12
Diluted (RMB)	*8*	**0.08**	0.07

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2017

	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**125,202**	116,556
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(3,400)**	–
Income tax effect	**850**	–
	(2,550)	–
Exchange differences on translation of foreign operations	**997**	313
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	**(1,553)**	313
Other comprehensive income for the period, net of tax	**(1,553)**	313
Total comprehensive income for the period, net of tax	**123,649**	116,869
Total comprehensive income for the period attributable to:		
Owners of the parent	**123,649**	110,471
Non-controlling interests	**–**	6,398
	123,649	116,869

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at June 30, 2017

	Notes	**As at 30 June 2017** ***RMB'000*** **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**3,146,285**	3,209,989
Land use rights	*10*	**450,878**	467,157
Other intangible assets		**435,309**	451,579
Deferred tax assets		**7,974**	7,794
Goodwill		**700,724**	700,724
Available-for-sale investments	*11*	**149,900**	149,300
Prepayments	*12*	**609,209**	609,209
Finance lease receivables		**1,831**	1,179
Total non-current assets		**5,502,110**	5,596,931
CURRENT ASSETS			
Inventories	*13*	**2,274,270**	2,175,151
Trade receivables	*14*	**254,452**	337,570
Finance lease receivables		**5,527**	3,148
Prepayments, deposits and other receivables		**2,996,315**	2,616,354
Cash in transit		**36,196**	31,550
Pledged bank deposits		**1,809,794**	2,207,144
Cash and cash equivalents		**733,206**	1,238,962
Total current assets		**8,109,760**	8,609,879
TOTAL ASSETS		**13,611,870**	14,206,810
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*15*	**–**	896,775
Long-term payables	*21*	**427,200**	–
Deferred tax liabilities		**146,126**	151,386
Total non-current liabilities		**573,326**	1,048,161
CURRENT LIABILITIES			
Trade and bills payables	*16*	**2,577,764**	3,036,578
Other payables and accruals		**1,378,301**	1,817,941
Amounts due to a related party	*20*	**173,107**	168,822
Interest-bearing bank and other borrowings	*15*	**5,181,334**	4,437,234
Income tax payable		**215,255**	281,981
Total current liabilities		**9,525,761**	9,742,556

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
As at June 30, 2017

	Notes	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
NET CURRENT LIABILITIES		**(1,416,001)**	(1,132,677)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,086,109**	4,464,254
EQUITY			
Equity attributable to owners of the parent			
Share capital	*18*	**5**	5
Reserves		**3,512,778**	3,388,911
		3,512,783	3,388,916
Non-controlling interests		**–**	27,177
Total equity		**3,512,783**	3,416,093
TOTAL EQUITY AND LIABILITIES		**13,611,870**	14,206,810

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Rundong Auto Group Limited (the "Company") was incorporated on 15 January 2014 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 August 2014.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale and service of motor vehicles in Mainland China.

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2017.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements, which comprise the interim condensed consolidated statements of financial position of the Group as at 30 June 2017 and the related interim condensed consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

As of 30 June 2017, the Group had net current liabilities of approximately RMB1,416,001,000. The Directors believe that the Group has sufficient cash flows from the operations and current available banking facilities to meet its liabilities as and when they fall due. Therefore, the interim condensed consolidated financial statements are prepared on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2016, except for the adoption of amendments effective as of 1 January 2017 below:

The Group has adopted the following revised HKFRSs for the first time in these interim condensed consolidated financial statements.

Amendments to HKAS 7	Statement of Cash Flows: Disclosure Initiative
Amendments to HKAS 12	Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 12 Disclosure of Interests in Other Entitles: Clarification of the scope of disclosure requirements in HKFRS 12

The adoption of these revised HKFRSs has had no significant financial effect on the Group's interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. SEGMENT INFORMATION

The Group's principal business is the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical area

Since all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and all of the Group's identifiable assets and liabilities were located in Mainland China, no geographical information is presented.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the period, no segment information about major customers is presented.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from the sale of motor vehicles	**8,191,813**	6,842,337
Others	**1,101,092**	1,029,208
	9,292,905	7,871,545

(b) Other income and gains, net

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Commission income	**176,220**	120,894
Bank interest income	**8,766**	5,505
Rental income	**1,488**	1,431
Government grants	**1,440**	4,864
Others	**4,581**	3,563
	192,495	136,257

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(a) Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**103,677**	102,452
Equity-settled share option expense	**218**	1,205
Other welfare	**64,467**	51,472
	168,362	155,129
(b) Cost of sales and services:		
Cost of sales of motor vehicles	**7,961,739**	6,537,121
Others	**650,764**	582,599
	8,612,503	7,119,720
(c) Other items:		
Depreciation of items of property, plant and equipment	**118,116**	124,100
Amortisation of land use rights	**6,463**	8,387
Amortisation of intangible assets	**16,228**	16,639
Advertisement and business promotion expenses	**26,861**	31,693
Reversal of write-down of inventories to net realisable value	**(5,942)**	–
Net loss on disposal of a subsidiary	**(1,545)**	–
Lease expenses	**25,033**	30,456
Bank charges	**6,940**	6,492
Loss on disposal of items of property, plant and equipment	**3,280**	5,954

6. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings wholly repayable within five years	**139,437**	194,224
Interest expense on other borrowings	**65,323**	21,893
Less: interest capitalised	**17**	–
	204,743	216,117

7. TAX

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Mainland China corporate income tax	**80,732**	75,583
Deferred tax	**(4,590)**	(5,443)
Total tax charge for the period	**76,142**	70,140

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong are subject to profits tax at the rate of 16.5% (six months ended 30 June 2016: 16.5%) during the period. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period.

According to the Corporate Income Tax Law of the People's Republic of China, the income tax rate was 25% (six months ended 30 June 2016: 25%) during the period.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average 946,476,000 of ordinary shares in issue during the six months ended 30 June 2017 (946,476,000 ordinary shares during the six months ended 30 June 2016), as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

The calculations of the basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation	**125,202**	110,158
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**946,476,000**	946,476,000
Effect of dilution — weighted average number of ordinary shares:		
Convertible preference shares	**664,268,747**	664,268,747
Share options	**1,640,628**	730,342
	1,612,385,375	1,611,475,089
Earnings per share		
Basic (RMB)	**0.13**	0.12
Diluted (RMB)	**0.08**	0.07

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2017, the Group acquired assets at a consideration of RMB102,549,000 (unaudited) (for the six months ended 30 June 2016: RMB210,781,000 (unaudited)).

Assets with a net book value of RMB48,137,000 (unaudited) were disposed of by the Group during the six months ended 30 June 2017 (for the six months ended 30 June 2016: RMB55,539,000 (unaudited)).

Certain of the Group's buildings with aggregate net book values of RMB383,775,000 (unaudited) and RMB429,712,500, respectively, as at 30 June 2017 and 31 December 2016 were pledged as security for the Group's interest-bearing bank and other borrowings.

Certain of the Group's buildings with an aggregate net book value of RMB14,416,000 (unaudited) and RMB14,528,000, as at 30 June 2017 and 31 December 2016, respectively, do not have building ownership certificates because they were built on land where the Group did not have the land use right certificates. The Group has obtained confirmation letters from the relevant bureaus of land and resources confirming that (1) the Group can build the relevant buildings on such land, (2) no fines for the use of land will be imposed on the Group, (3) the relevant bureaus will not confiscate the constructions and other facilities built on such land, and (4) the Group will not be required to return the relevant land before public bidding. In the opinion of the Directors, the risk of the relevant government authorities imposing a fine on the Group or confiscating the buildings is relatively low.

10. LAND USE RIGHTS

No land use rights are acquired during both the six months ended 30 June 2016 and 2017.

Assets with a net book value of RMB9,816,000 (unaudited) were disposed of by the Group during the six months ended 30 June 2017 (for the six months ended 30 June 2016: no land use rights were disposed (unaudited)).

Certain of the Group's land use rights with aggregate net book values of RMB116,773,000 (unaudited) and RMB135,300,000, respectively, as at 30 June 2017 and 31 December 2016 were pledged as security for the Group's interest-bearing bank and other borrowings.

Included in the Group's land use rights are rights to three parcels of land, with an aggregate net book value of RMB11,014,000 (unaudited) and RMB11,960,000 as at 30 June 2017 and 31 December 2016, respectively, which the Group had not obtained the land use right certificates. The Group has obtained confirmation letters from the relevant bureaus of land and resources confirming that (1) the Group can build and operate dealership stores on such land, (2) no fines for the use of land will be imposed on the Group, (3) the relevant bureaus will not confiscate the constructions and other facilities built on such land, and (4) the Group will not be required to return the relevant land before public bidding. In the opinion of the Directors, the risk of the relevant government authorities imposing a fine on the Group or requiring the Group to return the relevant land before public bidding is relatively low.

Included in the Group's land use rights are rights to five parcels of land, with an aggregate net book value of RMB30,660,000 (unaudited) and RMB31,392,000 as at 30 June 2017 and 31 December 2016, respectively, which the Group did not use for their designated usage. Under the relevant PRC laws and regulations, any change to the usage of land by the land use right holder must be approved by the relevant government authorities. The Group has obtained confirmation letters from the relevant bureaus of land and resources confirming that (1) the Group is the legal land use right holder of the relevant lands with full payment made, (2) the relevant bureaus are aware of the Group's present use of the land as dealership stores, and (3) there will be no fines or additional land grant fees to be imposed by the relevant bureaus and the Group will not be required to return the land to the government. In the opinion of the Directors, the risk of the relevant government authorities imposing a fine on the Group or requiring the Group to return the relevant land is relatively low.

11. AVAILABLE-FOR-SALE INVESTMENTS

The following table sets forth the available-for-sale investments for the period/year:

		30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Unlisted equity investments, at cost			
Xuzhou Huaihai Nongcun Commercial Bank Company Limited	*(i)*	**40,000**	40,000
Tongshanxian Nongcun Credit Cooperation Association	*(i)*	**9,000**	9,000
Gaojing Internet Technology Company	*(ii)*	**8,000**	4,000
		57,000	53,000
Listed equity investments, at fair value			
Jiangsu Bank Company Limited	*(iii)*		
— At cost		**53,000**	53,000
— Accumulated fair value gains		**39,900**	43,300
		92,900	96,300
Available-for-sale investments		**149,900**	149,300

(i) The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate. As at 30 June 2017 and 31 December 2016, certain unlisted equity investments with carrying amounts of RMB57,000,000 and RMB53,000,000, respectively, were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

(ii) In 2016, the Group entered into an equity interest transfer agreement to acquire 10% equity interests of Gaojing Internet Technology Company (高景網絡技術(上海)有限公司) or "Gao Jing") at a consideration of RMB8,000,000. The Group does not have significant influence over Gao Jing and has classified its investment amount as available-for-sale as at 31 December 2016 and 30 June 2017. Full considerations were paid off as at 30 June 2017 in accordance with the equity interest transfer agreement.

(iii) As at 30 June 2017, the equity shares in Jiangsu Bank were stated at fair value impairment because Jiangsu Bank (600919) was listed in Shanghai Stock Exchange on 2 August 2016. The net loss in respect of the Group's available-for-sale investments of Jiangsu Bank recognised in other comprehensive income amounted to RMB3,400,000 (RMB2,550,000, net of tax) during the six months ended 30 June 2017.

12. PREPAYMENTS

		30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Prepayments for potential acquisitions	*(i)*	**600,000**	600,000
Prepayments for land use rights		**9,209**	9,209
		609,209	609,209

(i) Included in the prepayment was an amount of RMB300 million made in relation to the proposed acquisition for Yangzhou Huawei Automobile Investment Management Co., Ltd. ("Huawei Automobile"), which principally engaged in automobile sales and services business, and the details of the proposed acquisition has been disclosed in the Group's public announcement dated 20 October 2016.

13. INVENTORIES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Motor vehicles	**2,074,463**	1,990,391
Spare parts and accessories	**209,706**	200,601
	2,284,169	2,190,992
Less: Provision for inventories	**9,899**	15,841
	2,274,270	2,175,151

14. TRADE RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	**254,452**	337,570
Impairment	**–**	–
	254,452	337,570

The Group's trading terms with its customers are mainly on cash, except for some transactions which are traded on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

14. TRADE RECEIVABLES *(Continued)*

An aged analysis of the trade receivables as at the end of each Period Under Review (based on the invoice date) is as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within three months	**223,951**	312,627
More than three months but less than one year	**30,335**	24,775
More than one year	**166**	168
	254,452	337,570

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Neither past due nor impaired	**223,951**	312,627
Less than three months past due	**30,335**	24,775
Three months to one year past due	**166**	168
	254,452	337,570

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

		30 June 2017 (Unaudited) Effective interest rate (%)	RMB'000	31 December 2016 (Audited) Effective interest rate (%)	RMB'000
Current					
Bank loans		**4.35–8.70**	**3,526,096**	4.00–8.70	3,772,704
Other borrowings	*(i)*	**3.68–11.00**	**1,655,238**	5.52–10.50	664,530
			5,181,334		4,437,234
Non-current					
Bank loans		**–**	**–**	7.35–8.32	166,775
Other borrowings	*(i)*	**–**	**–**	8.90	730,000
			–		896,775
			5,181,334		5,334,009

(i) The Group entered into a facility agreement with Shanghai Fengyu Investment Ltd. (上海奉宇投資管理有限公司), an independent third party, on 8 July 2016 for a loan facility of RMB730 million. The facility is unsecured and the facility period is for a term of 18 months till January, 2018 and its interest rate is fixed at 8.9% per annum. The Group reclassified the balance of such other borrowings from long-term to short-term liabilities because its maturity date will fall within one year.

16. TRADE AND BILLS PAYABLES

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Trade payables	**160,038**	163,455
Bills payable	**2,417,726**	2,873,123
Trade and bills payables	**2,577,764**	3,036,578

16. TRADE AND BILLS PAYABLES *(Continued)*

An aged analysis of the trade and bills payables as at the end of the Period Under Review, based on the invoice date, is as follows:

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Within 3 months	**2,200,467**	2,407,881
3 to 6 months	**343,375**	600,624
6 to 12 months	**27,265**	26,175
Over 12 months	**6,657**	1,898
	2,577,764	3,036,578

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

17. DIVIDEND

The Directors resolved not to declare any interim dividend to the shareholders of the Company for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil).

18. SHARE CAPITAL

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Issued and fully paid:		
946,476,000 (2016: 946,476,000) ordinary shares of US$0.0000005 each	**3**	3
664,268,747 (2016: 664,268,747) convertible preference shares of US$0.0000005 each	**2**	2
	5	5

19. CONTINGENT LIABILITIES

(i) The Group had provided guarantees in respect of banking facilities associated with Huawei Automobile (Note 12) with an aggregate amount of RMB312 million. The Directors confirmed that these guarantees will be released within the next six months period by 31 December 2017.

(ii) In the opinion of the Directors of the Company, other than the property defectives mentioned in notes 9 and 10, as at 30 June 2017, neither the Group nor the Company had any significant contingent liabilities.

20. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transactions and balances disclosed elsewhere in the interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

Mr. Yang Peng is a shareholder of the Group and is also considered to be a related party of the Group.

(a) The Group had the following transactions with a related party for the six months ended 30 June 2016 and 2017:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Advancement from a shareholder, Mr. Yang Peng	**4,285**	–

(b) Outstanding balances with a related party

Due to a shareholder

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mr. Yang Peng	**173,107**	168,822

The amount due to the related party was unsecured, interest free, with no fixed terms of repayment and non-trade in nature.

(c) Compensation of key management personnel

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short term employee benefits	**2,976**	2,239
Pension scheme contributions	**129**	107
Total compensation paid to key management personnel	**3,105**	2,346

21. LONG-TERM PAYABLES

The long term payables represented the capital funding from the independent third parties pursuant to the prevailing terms as stipulated in the agreement of the limited liability partnership fund between the Group and the two parties, and the terms are subject to further modification to be agreed by the Group and the two parties by end of the year.

22. EVENTS AFTER THE REPORTING PERIOD

As disclosed in Note 12 in this financial report in relation with the proposed acquisitions, the Directors of the Company are of the opinion that these acquisitions are still in progress and the completion of the acquisitions are subject to the approvals from the relevant authorities.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2017, affected by backsliding on preferential purchase tax policy, China's automobile sales market has been under great pressure. According to the semi-annual production and sales figures released by China Association of Automobile Manufactures, the production and sales of passenger vehicles reached 11.4827 million units and 11.2530 million units respectively, representing a year-on-year increase of 3.16% and 1.61% respectively, with a decrease in growth rate of 4.16 percentage points and 7.62 percentage points respectively comparing to the same period last year. Therefore, moderate growth became the main trend of the first half of 2017. In the end market, automobile dealers felt they were under heavier market pressure. According to "China automobile dealers' vehicle inventory alert index" released by China Automobile Dealers' Association, the inventory alert index remained above the warning line for the whole period of the first half of 2017. Due to the increased inventory pressure, end sales competition was heating up and price war was triggered. In addition, Korean brands, affected by the THAAD event, witnessed a particularly low performance and a significant drop in sales results.

In the first half of 2017, luxury car market witnessed a sound performance driven by consumption upgrade and entry-level luxury cars. Top 10 luxury car brands[Note] witnessed a growth rate of up to 18.7% in the first half, much higher than that of the overall market sales of passenger vehicles. On the other hand, luxury car market witnessed a fierce internal competition and a new change in its pattern. In the first six months of this year, Benz and Smart achieved a year-on-year increase in sales volume of more than 38.2%, and won the semi-annual best-seller title in China luxury car market for the first time, while BMW ranked second. Audi, the only brand with negative growth rate among top ten luxury car brands, dropped to the third place on the list with a year-on-year decrease of 12.2%. All other second-tier luxury car brands achieved a relatively rapid growth, among which, Jaguar and Land Rover achieved a year-on-year increase of 26.0% in accumulative sales volume and set a record high in history.

According to the figures released by Traffic Management Bureau under the Ministry of Public Security, as of the end of June 2017, the automobile ownership in China has reached 205 million units. Such a large quantity will contribute to the rapid development of the after-sales market business, including automobile maintenance, car insurance etc..

In the first half of 2017, automobile financing market was increasingly heating up, and in general, witnessed the following trends: (1) penetration rate of personal loan mortgage business further increased with the change of the customer's consumption concept; and (2) products of all kinds of financial leasing companies, especially of internet financial companies, sprung up, targeting young consumer groups, and causing a storm in automobile consumption market and the industry.

Affected by numerous factors like the "canceling restrictions on the migration of second-hand cars" policy, capital input, the continuous rise of automobile ownership, car replacement cycle etc., second-hand car trading volume increased significantly in the first half of 2017. According to the statistics of China Automobile Dealers Association, China's second-hand car trading volume reached 5.837 million units in the first half of 2017, representing a year-on-year increase of 21.5%. After a period of silence, there was a new wave of capital input for second-hand car E-business in the first half of 2017.

Note: The top ten luxury car brands include Audi, BMW (including MINI), Mercedes-Benz, Jaguar Land Rover, Lexus, Volvo, Cadillac, Porsche, Infiniti and Lincoln.

In April 2017, the Ministry of Commerce officially released Measures for the Administration of Automobile Sales (hereinafter referred to as "**Measures**"), with an aim to standardize the market, promote consumption, and protect consumers' rights and interests, and the Measures standardized many concrete behaviors of the automobile dealers, after-sale service providers and automobile providers. Overall, the Measures is conducive to improving the disadvantaged position of automobile dealers when facing the automobile manufacturers. In the long run, the Measures will boost the formation of more business modes, gradually change the existing industry pattern, and provide more opportunities for internet automobile dealers and financial companies in automobile dealership field.

BUSINESS REVIEW

For the six months ended June 30, 2017, the Group recorded an operating income of RMB9,292.9 million, representing a year-on-year increase of 18.1%; a gross profit of RMB680.4 million, representing a year-on-year decrease of 9.5%; and the profit attributable to owners of the parent of RMB125.2 million, representing a year-on-year increase of 13.7%.

New Car Sales

During the Period Under Review, the Group recorded a revenue of RMB8,191.8 million from new car sales, representing a year-on-year increase of 19.7%, among which, luxury and ultra-luxury car sales revenue reached RMB6,334.6 million, representing a year-on-year increase of 29.8%, and accounting for 77.3% of the new car sales revenue.

During the Period Under Review, as the Group's main agency brands were in different product cycles and subject to different competition patterns, the Group recorded different gross sales profit margins regarding different agency brands. The Group, upon overall consideration of the product cycles of all brands, market conditions and single model's inventory depth, actively adjusted the inventory management strategies, and, via developing and executing multi-tier price strategies, optimized the inventory structures. During the Period Under Review, considering its main agency brand — BMW series — stepped into an upgrading period, the Group sped up to sell out the inventories of BMW old models so as to achieve its goal of lowering the inventory depth and optimizing resource allocation. Affected by the sales strategy adjustment in the first half of 2017, the Group's new car business recorded an overall gross profit margin of 2.8%, representing a year-on-year decrease. In the future, benefiting from the Group's main agency brands' new products launch and heavy-weight products upgrades, the Group's main agency brands' new products will step into strong product cycles which will benefit the gross sales profit margin of new cars as the Group expects.

After-sales Services

During the Period Under Review, affected by factors like the falling price of auto spare parts and the commercial auto insurance rate reform, after-sales service has been under pressure. Under such circumstances, the Group developed and promoted new after-sales service products to attract customers and to guarantee a stable increase of customer base and units of automobiles served. In addition, the Group carried out after-sales auto decoration business as its annual strategic business. By introducing external professional providers, the Group established standard automobile decoration workshops of different levels with customized services in stores to meet the customer's personalized needs, enhance customer viscosity and increase revenues from after-sales auto decorations business.

During the Period Under Review, the after-sales service achieved a revenue of RMB1,101.1 million, representing a year-on-year increase of 7.0%, and accounting for 11.8% of the Group's total revenue; a gross profit of RMB450.3 million, representing a year-on-year slight increase; and a gross profit margin of after-sales services was 40.9%.

Value-added Business

During the Period Under Review, automobile financing business developed into one of the Group's annual strategic businesses. The Group enhanced the cooperative model of "headquarter-to-headquarter" with strategic brands manufacturers and expanded financial channels. Meanwhile the Group integrated financial resources of the Group and the regions, and implemented innovation on financial products to meet diversified customer needs. During the Period Under Review, the Group's revenue from financing agency service reached RMB85.1 million, representing a year-on-year increase of 64.3%; and the penetration rate of the business increased to 42% from 32% during the same period of last year.

During the Period Under Review, the Group enhanced its cooperation with the insurance companies as always, and actively tried new insurance products and new modes to enhance differentiated competitiveness. In addition, the Group, while continuing to increase the penetration rate of insurance against scratch, paintwork insurance, keys insurance and many other products, introduced new insurance products to lock in customers to ensure a continuous and stable growth of insurance agency revenue. During the Period Under Review, the Group achieved a revenue of RMB54.2 million from insurance agency business, representing a year-on-year increase of 75.0%.

During the Period Under Review, revenues from second-hand car agency services realized substantial growth. Since the forming of a second-hand car team in 2016, the Group has established a second-hand car business system featuring standardized business process, strict process control, cooperation with second-hand car E-business companies, self-established second-hand car auction platform etc. With the professional system, the Group's second-hand car replacement rate was largely improved. During the Period Under Review, revenue from the Group's second-hand car agency service reached RMB11.0 million, representing a year-on-year increase of 750%.

Brand and Network Layout

During the Period Under Review, the Group constantly optimized its brand structure by establishing more luxury car brand stores, and optimizing the medium-and high-end stores based on prudent evaluation. In the first half of the year, the Company established new Alfa Romeo brand stores within 4 Maserati stores, sold 1 Dongfeng Honda 4S store and closed down 1 Dongfeng Nissan exhibition hall.

As at June 30, 2017, the Group's brand portfolio includes 9 luxury brands, namely BMW, MINI, Jaguar, Land Rover, Audi, Alfa Romeo, Lexus, Cadillac and Chrysler; 2 ultra-luxury brands, namely Maserati and Ferrari and 15 mid-to high-end brands, namely Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan, Zhengzhou Nissan, FAW-Volkswagen and BJEV.

As at June 30, 2017, the Group operated 68 stores, of which 44 were located in Jiangsu province, 14 in Shandong province, 7 in Shanghai, 2 in Zhejiang province and 1 in Anhui province. As at June 30, 2017, the distribution of the Group's network of dealership stores was as follows:

	Brand	**Number of stores**
Luxury and ultra-luxury brands	Maserati and Ferrari	1
	Maserati and Alfa Romeo	4
	BMW and MINI	23
	Jaguar & Land Rover	7
	Audi	4
	Cadillac	2
	Lexus	1
	Chrysler	1
Mid-to high-end brands	Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan, Zhengzhou Nissan and BJEV	25
Total		68

Outlook and Strategy

On July 1, 2017, Measures for the Administration of Automobile Sales came into effect, which would break the monopoly of brand licensing sales, and build up a diversified automobile circulation system. With the increasingly fierce competition, automobile dealers industry will witness a continuous integration and automobile dealers will continue to develop their core competitiveness in the automobile after-sales market business. The Group will respond to the development and changes of the automobile market and adopt the following business adjustments and measures to realize a good development prospect:

Continuous optimization of our dealer network and brand portfolio

We plan to constantly expand our dealer network in areas with high-growth potential via the opening of new stores and prudential mergers and acquisition. Furthermore, we will enrich and optimize our brand portfolio and dealer network via enhancing the cooperation with luxury and ultra-luxury brand manufacturers, and further improve our market position in China as a whole via constantly consolidating our leading market position in East China area.

Speeding up transformation to after-sales market business and optimizing business structure and profitability

Based on good understanding of the automobile market discipline, we aim to speed up our business transformation and optimize profit structure. We set the goal of integrated profitability improvement and constant business transformation with more emphasis on our strategic business priorities, namely after-sales services, automobile financing business, second-hand car business and automobile decoration business.

Improving management level and strengthening service transformation and upgrade

The Group will, for the purpose of service productization, product standardization, and management standardization, constantly advance the construction of management and control system. Also, the Group will, based on the principle of simplification and high efficiency, further optimize the Company's organization structure. Besides, the Group will be performance-oriented, further optimize remuneration, assessment and incentive mechanisms, improve per capita effectiveness, and enhance professional and collaborative management capacity. Moreover, we will continue to enhance the efficiency of finance, fund, audit and authorization management systems and risk control capacity, in a move to lay a solid foundation for the Group's mid-and long-term sound and sustainable development.

Meanwhile, with the objective of providing our customers with professional and efficient services, the Group will constantly improve customer consumption experience and build new consumption ecosystems.

FINANCIAL REVIEW

Revenue

For the Period Under Review, we recorded revenue of RMB9,292.9 million, representing an increase of 18.1% compared to the same period in 2016, mainly due to the growth in sales and after-sales revenue from luxury automobiles and ultra-luxury automobiles that we mainly operated.

The table below sets out the Group's revenue for the Period Under Review.

	Unaudited For the six months ended June 30, 2017		Unaudited For six months ended June 30, 2016		1H2017 VS. 1H2016
Revenue Source	**Revenue** *(RMB'000)*	**Contribution** *(%)*	Revenue *(RMB'000)*	Contribution *(%)*	Change *(%)*
New automobile sales	**8,191,813**	**88.2**	6,842,337	86.9	19.7
After-sales service	**1,101,092**	**11.8**	1,029,208	13.1	7.0
Total	**9,292,905**	**100**	7,871,545	100	18.1

Revenue from the sales of automobiles increased by RMB1,349.5 million, or 19.7%, in the Period Under Review compared to the same period in 2016, mainly attributable to the growth of luxury and ultra-luxury automobile sales of the Company. Revenue generated from automobile sales accounted for 88.2% of our revenue for the Period Under Review. Revenue generated from the sale of luxury and ultra-luxury brands and our mid-to high-end market brands accounted for 77.3% and 22.7% of our revenue from automobile sales respectively.

Revenue from our after-sales business increased by 7.0% from RMB1,029.2 million for the six months ended June 30, 2016 to RMB1,101.1 million for the same period in 2017.

Cost of sales and services

Our cost of sales and services increased by 21.0% from RMB7,119.7 million for the same period in 2016 to RMB8,612.5 million for the six months ended June 30, 2017.

The cost of sales and services of our automobile sales business amounted to RMB7,961.7 million for the Period Under Review, representing an increase of RMB1,424.6 million, or 21.8%, from the corresponding period in 2016. The sales cost of our after-sales business amounted to RMB650.8 million for the six months ended June 30, 2017, representing an increase of RMB68.2 million, or 11.7%, from the corresponding period in 2016.

Gross profit and gross profit margin

Gross profit for the six months ended June 30, 2017 was RMB680.4 million, representing a decrease of RMB71.4 million, or 9.5%, from the same period in 2016. Gross profit from automobile sales decreased by 24.6% from RMB305.2 million for the six months ended June 30, 2016 to RMB230.1 million for the same period in 2017. Gross profit from after-sales business increased by 0.8% from RMB446.6 million for the six months ended June 30, 2016 to RMB450.3 million for the same period in 2017. Automobile sales and after-sales business accounted for 33.8% and 66.2%, respectively, of our total gross profit for the Period Under Review.

Gross profit margin for the six months ended June 30, 2017 was 7.3%, lower than 9.6%, which was the gross profit margin for the six months ended June 30, 2016. In which, the gross profit margin of automobile sales was 2.8%. Gross profit margin of after-sales business was 40.9%. During the Period Under Review, the product cycles of the Group's main agency brands and the measures it took for inventory optimization resulted in a decrease in gross profit margin from sales of new cars. Meanwhile, factories lowering the price of accessory and the commercial automobile insurance premium rate reform also caused the gross profit margin of after-sales services to drop.

Other income and net gains

Other income and net gains increased by 41.3% from RMB136.3 million for the six months ended June 30, 2016 to RMB192.5 million for the corresponding period in 2017, among which, commission income increased by 45.8% from RMB120.9 million for the six months ended June 30, 2016 to RMB176.2 million for the corresponding period in 2017. The increase in commission income was attributable to the Company's efforts in developing automobile financing consultation, insurance agency and second-hand car service commission businesses during the Period Under Review.

Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB221.3 million for the six months ended June 30, 2017, representing an increase of 1.3% from RMB218.5 million for the same period of 2016. The increase in expenses was mainly due to the increase in sales.

Administrative expenses

Administrative expenses of the Group amounted to RMB238.8 million for the six months ended June 30, 2017, representing an increase of 5.4% from RMB226.5 million for the same period of 2016, mainly due to a growth in staff salaries and daily operation expenditures as to new brands.

Financing cost

Financing cost of the Group amounted to RMB204.7 million for the six months ended June 30, 2017, representing a decrease of 5.3% from RMB216.1 million for the six months ended June 30, 2016, mainly due to fund structure adjustment and increased utilization efficiency of funds.

Profit from operations

Profit from operations of the Group amounted to RMB201.3 million for the six months ended June 30, 2017, representing an increase of 7.8% from RMB186.7 million for the same period of 2016. Operating profit margin was 2.2%.

Income tax expenses

Income tax expenses of the Group amounted to RMB76.1 million for the six months ended June 30, 2017 and the effective tax rate was 37.8%.

Profit for the Period Under Review

For the six months ended June 30, 2017, the Group's profit during the Period Under Review amounted to RMB125.2 million, representing an increase of 7.4% from RMB116.6 million for the same period of 2016. Net profit margin during the Period Under Review was 1.3%.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at June 30, 2017, our cash and cash equivalents amounted to RMB733.2 million, representing a decrease of 40.8% from RMB1,239.0 million as at December 31, 2016. This was mainly attributable to the Company's adjustment to the fund structure and its paying off the long-term liabilities.

Our primary uses of cash were to purchase new automobiles, spare parts and automobile accessories, to establish new dealership stores and to fund our working capital and normal operating costs. We financed our liquidity requirements through a combination of short-term bank loans, other borrowings and cash flows generated from our operating activities.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans, other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time.

For the six months ended June 30, 2017, we had a net cash outflow from operating activities of RMB177.7 million (June 30, 2016: RMB456.1 million). We had a net outflow from investing activities of RMB488.2 million (June 30, 2016: RMB307.3 million). We had a net cash inflow of RMB159.1 million generated from financing activities (June 30, 2016: net inflow of RMB682.7 million).

Net current liabilities

As at June 30, 2017, we had net current liabilities of RMB1,416.0 million, representing an increase of RMB283.3 million from RMB1,132.7 million as at December 31, 2016. The increase in the current liabilities was mainly due to an adjustment of fund structure and paying off the long-term liabilities.

Capital expenditure

Our capital expenditures are primarily comprised expenditures on property, plant, equipment and intangible assets. For the six months ended June 30, 2017, our total capital expenditure was RMB102.6 million (for the six months ended June 30, 2016: RMB194.1 million).

Inventory

Our inventory primarily consisted of new automobiles and spare parts and automobile accessories. Each of our dealership stores has dedicated staff to manage their orders for new automobiles and after-sales products.

Our inventory increased by 4.6% from RMB2,175.2 million as at December 31, 2016 to RMB2,274.3 million as at June 30, 2017, primarily due to the increase in new automobile procurement required for the market demand.

In the Period Under Review, our average inventory turnover days decreased to 46.5 days from 49.0 days in the same period in 2016, primarily due to the improvement in inventory management and inventory clean-up.

Trade and bills receivables

Trade and bills receivables decreased from RMB337.6 million for the year ended December 31, 2016 to RMB254.5 million for the six months ended June 30, 2017, primarily due to the Company's efforts in strengthening the control over receivables and speeding up payment collection.

Bank loans and other borrowings

As at June 30, 2017, the Group's available but unused banking facilities were RMB2,158.0 million (December 31, 2016: RMB5,296.5 million).

Our bank loans and other borrowings as at June 30, 2017 were RMB5,181.3 million, representing a decrease of RMB152.7 million from RMB5,334.0 million as at December 31, 2016. The decrease was mainly due to the decreased capital expenditures and increased utilization coefficient of funds.

Interest rate risk and foreign exchange risk

We are exposed to interest rate risk resulting from fluctuations in the interest rate on our debts. Part of our borrowings were variable-rate borrowings that are linked to the benchmark rates of the People's Bank of China. Increase in interest rate could result in an increase in our cost of borrowing. In such case, not only our finance costs, but also our profit and financial position would be adversely affected. We did not currently use any derivative financial instruments to hedge our exposure to interest rate risk.

The Group's businesses are principally operated in Mainland China and most of its transactions are conducted in RMB. We believe our operations currently are not subject to any significant direct foreign exchange risk. We do not currently use any derivative financial instruments to hedge our exposure to foreign exchange risk.

Gearing ratio

Our gearing ratio (defined as the aggregate of interest-bearing bank loans and other borrowings divided by shareholders' equity as at the end of each Period Under Review and then multiplied by 100%) for the six months ended June 30, 2017 was 147.5% (December 31, 2016: 156.1%).

Human resources

As of June 30, 2017, the Group had 5,045 employees (June 30, 2016: 4,835). Total staff costs in the Period Under Review, excluding Directors' remuneration were RMB168.3 million (for the six months ended June 30, 2016: RMB155.1 million).

The Group values the recruiting and training of excellent person. We implement remuneration policy, bonus and long term incentive schemes with reference to the performance of the Group and individual employees. The Group also provides benefits, such as insurance, medical and retirement funds to employees to sustain competitiveness of the Group.

Contingent liabilities

As of June 30, 2017, the Group provided guarantee in the amount of RMB312.4 million in relation to bank loans of Huawei Automobile and its subsidiaries.

Pledge of the Group's assets

The Group pledged its assets as securities for bank loans, other borrowings and banking facilities which were used to finance daily business operation. As at June 30, 2017, the pledged group assets amounted to RMB2,310.3 million.

Events after the Reporting Period

The acquisitions that Group acquired Huawei Automobile and its subsidiaries are still in progress and the completion of the acquisitions are subject to approvals from the relevant authorities.

CHANGES SINCE DECEMBER 31, 2016

Save as disclosed in this announcement, there were no other significant changes in the Group's financial position or the information disclosed under Management Discussion and Analysis in the annual report as of December 31, 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as disclosed in "Management Discussion and Analysis" in this announcement, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended June 30, 2017 and on or before the date of this announcement.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). During the Period Under Review, the Company has fully complied with the code provisions set out in the CG Code, except for the deviation from code provision A.2.1. The code provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has appointed Mr. Yang Peng as both the Chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the Chairman and the chief executive officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors. The Board shall review the structure and composition of the Board from time to time in light of prevailing circumstances to maintain a high standard of corporate governance practices of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Specific enquiry has been made to all the Directors who have confirmed that they have complied with the Model Code throughout the Period Under Review.

The Board has also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

INTERIM DIVIDEND

The Board resolved not to declare any payment of interim dividend to the shareholders of the Company for the six months ended June 30, 2017 (for the six months ended June 30, 2016: nil).

AUDIT COMMITTEE REVIEW

Pursuant to the requirement of the CG Code and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**"), comprising three independent non-executive Directors, being Mr. Lee Conway Kong Wai (Chairman), Mr. Xiao Zhengsan and Mr. Li Xin.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to risk management, internal control and financial reporting with the management, including the review of the unaudited condensed consolidated interim financial statements of the Group for the Period Under Review.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.rundong.com.cn). The interim report of the Company for the Period Under Review will be dispatched to the shareholders of the Company and made available on the same websites in due course.

By Order of the Board
China Rundong Auto Group Limited
Yang Peng
Chairman

Hong Kong, August 29, 2017

As at the date of this announcement, the executive Directors are Mr. Yang Peng, Mr. Liu Dongli, Mr. Shen Mingming, Mr. Zhao Zhongjie and Mr. Liu Jian; and the independent non-executive Directors are Mr. Mei Jianping, Mr. Lee Conway Kong Wai, Mr. Xiao Zhengsan and Mr. Li Xin.