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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 2023

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2023, revenue increased to RMB14,088.7 million, representing a growth of 11.3% as compared to the same period in 2022.
- Revenue of new passenger vehicles sales increased to RMB12,126.5 million, representing a growth of 8.7% as compared to the same period in 2022.
- Revenue of after-sales services increased by 30.3% to RMB1,962.2 million as compared to the same period in 2022.
- For the six months ended 30 June 2023, profit for the period amounted to RMB44.7 million.
- Proposed interim dividend of RMB0.0087 per ordinary share.

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 2023 (the “**Period**” or the “**Reporting Period**”).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023 — unaudited

		Six months ended 30 June	
	Note	2023	2022
		RMB'000	RMB'000
Revenue	3	14,088,673	12,658,377
Cost of sales	5	(13,087,582)	(11,324,227)
Gross profit		1,001,091	1,334,150
Other revenue and other net income	4	123,446	109,117
Distribution costs		(382,043)	(397,834)
Administrative expenses		(400,643)	(377,310)
Impairment losses on goodwill and intangible assets	5(c)	(37,198)	—
Profit from operations		304,653	668,123
Finance costs	5(a)	(149,293)	(127,146)
Share of profits of a joint venture		10,801	16,531
Profit before taxation	5	166,161	557,508
Income tax	6	(121,434)	(190,937)
Profit for the period		44,727	366,571
Other comprehensive income for the period (after tax):			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements of the Company		(6,069)	12,899
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		2,905	12,198

		Six months ended 30 June	
	<i>Note</i>	2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income for the period		(3,164)	25,097
Profit and total comprehensive income for the period		<u>41,563</u>	<u>391,668</u>
Profit attributable to:			
Equity shareholders of the Company		38,991	343,223
Non-controlling interests		5,736	23,348
Profit for the period		<u>44,727</u>	<u>366,571</u>
Total comprehensive income attributable to:			
Equity shareholders of the Company		35,827	368,320
Non-controlling interests		5,736	23,348
Total comprehensive income for the period		<u>41,563</u>	<u>391,668</u>
Earnings per share			
Basic (<i>RMB cents</i>)	7(a)	2.91	27.02
Diluted (<i>RMB cents</i>)	7(b)	<u>2.90</u>	<u>26.75</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 — unaudited

	<i>Note</i>	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	8	1,813,119	1,843,046
Right-of-use assets	9	1,734,950	1,785,399
Intangible assets	10	3,381,539	3,477,100
Goodwill	10	971,588	1,004,512
Interest in a joint venture		26,664	38,985
Other non-current assets		72,246	74,904
Deferred tax assets		133,308	126,980
		<u>8,133,414</u>	<u>8,350,926</u>
Current assets			
Inventories	11	943,112	1,069,360
Trade and other receivables	12	1,355,066	1,560,489
Pledged bank deposits	13	692,938	910,307
Fixed deposits with more than three months to maturity when placed	14	1,508,117	712,696
Cash and cash equivalents	14	1,745,531	1,635,625
		<u>6,244,764</u>	<u>5,888,477</u>
Current liabilities			
Loans and borrowings	15	1,326,553	1,413,918
Trade and other payables	16	2,683,751	3,192,872
Income tax payables		91,909	101,751
Lease liabilities		166,118	165,195
		<u>4,268,331</u>	<u>4,873,736</u>
Net current assets		<u><u>1,976,433</u></u>	<u><u>1,014,741</u></u>
Total assets less current liabilities		<u><u>10,109,847</u></u>	<u><u>9,365,667</u></u>

		At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Non-current liabilities			
Loans and borrowings	15	371,395	492,813
Convertible bonds	17	2,394,840	2,274,932
Deferred tax liabilities		902,105	873,518
Lease liabilities		1,261,758	1,290,624
		<u>4,930,098</u>	<u>4,931,887</u>
NET ASSETS		<u>5,179,749</u>	<u>4,433,780</u>
EQUITY			
Share capital	18	107,888	101,888
Reserves		4,940,808	4,173,138
		<u>5,048,696</u>	<u>4,275,026</u>
Total equity attributable to equity shareholders of the Company		<u>5,048,696</u>	<u>4,275,026</u>
Non-controlling interests		<u>131,053</u>	<u>158,754</u>
TOTAL EQUITY		<u>5,179,749</u>	<u>4,433,780</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 General information and the basis of presentation

China MeiDong Auto Holdings Limited (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 Company and its subsidiaries (together, the “**Group**”) are 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 30 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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 2022 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

(a) New and amended HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform — Pillar Two model rules*

Except for the amendment to HKAS 12, 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. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in the annual financial statements, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Sales of passenger vehicles	12,126,498	11,152,216
— After-sales services	1,962,175	1,506,161
	<u>14,088,673</u>	<u>12,658,377</u>

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 revenue and other net income

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Other revenue		
Commission income	41,187	64,687
Bank interest income	51,436	18,834
Management service income	2,723	4,210
	<u>95,346</u>	<u>87,731</u>
	95,346	87,731
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Other net income		
Net gain on disposal of property, plant and equipment	19,761	14,991
Net foreign exchange gain/(loss)	5,569	(6,093)
Others	2,770	12,488
	<u>28,100</u>	<u>21,386</u>
	28,100	21,386
	<u>123,446</u>	<u>109,117</u>
	123,446	109,117

5 Profit before taxation

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
(a) Finance costs:		
Interest on:		
— loans and borrowings	47,588	32,110
— convertible bonds	53,241	44,267
— lease liabilities	42,016	40,876
	<u>142,845</u>	<u>117,253</u>
Total interest expense	142,845	117,253
Interest on bills discounting	6,448	9,893
	<u>149,293</u>	<u>127,146</u>
(b) Staff costs:		
Salaries, wages and other benefits	400,777	439,935
Equity settled share-based payment expenses (i)	9,954	18,347
Contributions to defined contribution retirement plans (ii)	16,137	19,827
	<u>426,868</u>	<u>478,109</u>
(c) Other items:		
Cost of inventories	12,976,713	11,210,172
Write-down of inventories	10,074	10,764
Depreciation charge		
— owned property, plant and equipment	125,624	103,105
— right-of-use assets	72,360	63,323
Impairment losses		
— goodwill (note 10)	32,924	—
— intangible assets (note 10)	4,274	—
Amortisation of intangible assets	91,287	40,245
Lease expenses	3,853	3,651
Net foreign exchange (gain)/loss	(5,569)	6,093
	<u>(5,569)</u>	<u>6,093</u>
(i) The Group recognised an expense of RMB9,954,000 for the six months ended 30 June 2023 in relation share options granted to certain employees of the Group pursuant to a share option scheme (six months ended 30 June 2022: RMB18,347,000) (see note 18(b)).		

- (ii) 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’s contributions made to the defined contribution retirement scheme are non-refundable and cannot be used to reduce the future or existing level of contribution of the Group should any forfeiture be resulted from the schemes.

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	
		2023	2022
		RMB’000	RMB’000
Current tax:			
Provision for PRC income tax for the period	(i)	99,175	180,230
Deferred tax:			
Origination of temporary differences	(ii)	<u>22,259</u>	<u>10,707</u>
		<u>121,434</u>	<u>190,937</u>

- (i) 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 subsidiaries located in Hong Kong as the subsidiaries 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.

One subsidiary of the Group enjoyed preferential Corporate Income Tax rates which was lower than 25% as it operated in designated areas with preferential CIT policies in the PRC.

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

- (ii) Since the Company obtained certificate of resident status and became a resident of the Hong Kong Special Administrative Region under the “Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income”. Under such arrangement, dividend distributions out of earnings of PRC enterprises imposed a withholding tax at 5% during the period ended 30 June 2023.

The Group recognised PRC dividend withholding tax of RMB52.5 million related to the estimated dividend distribution out of earnings of PRC subsidiaries of RMB1,050 million in the foreseeable future, out of which RMB50 million has already been distributed during the six months ended 30 June 2023.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2023 is based on the profit attributable to equity shareholders of the Company of RMB38,991,000 (six months ended 30 June 2022: RMB343,223,000) and the weighted average of 1,339,224,000 ordinary shares in issue (six months ended 30 June 2022: 1,270,474,000 ordinary shares) during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2023	2022
Issued ordinary shares at 1 January	1,276,572,000	1,247,867,000
Effect of exercise of share options (<i>note 18(b)</i>)	933,000	853,000
Effect of new shares issued (<i>note 18(c)</i>)	61,613,000	21,754,000
Effect of conversion of convertible bonds (<i>note 18(d)</i>)	106,000	—
	<hr/>	<hr/>
Weighted average number of ordinary shares at 30 June	<u>1,339,224,000</u>	<u>1,270,474,000</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2023 is based on the profit attributable to equity shareholders of the Company of RMB38,991,000 (six months ended 30 June 2022: RMB343,223,000) and the weighted average of 1,344,510,000 ordinary shares (six months ended 30 June 2022: 1,283,160,000 ordinary shares) 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 2023.

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2023	2022
Weighted average number of ordinary shares at 30 June	1,339,224,000	1,270,474,000
Effect of deemed issue of shares under the employee share option scheme	5,286,000	12,686,000
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 30 June	<u>1,344,510,000</u>	<u>1,283,160,000</u>

The computation of diluted earnings per share for the six months ended 30 June 2023 and 2022 does not assume the conversion of the Group's outstanding convertible bonds since its exercise had anti-dilutive effect that would result in an increase in earnings per share for the six months ended 30 June 2023 and 2022.

8 Property, plant and equipment

During the six months ended 30 June 2023, the Group acquired items of property, plant and equipment with original costs of RMB216,849,000 (six months ended 30 June 2022: RMB599,067,000). Items of property, plant and equipment with a net book value of RMB121,153,000 were disposed of during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB38,887,000), resulting in a gain on disposal of RMB19,761,000 (six months ended 30 June 2022: RMB14,991,000).

9 Right-of-use assets

During the six months ended 30 June 2023, the Group entered into a number of new tenancy agreements and therefore recognised the additions to right-of-use assets of RMB24,502,000 (six months ended 30 June 2022: RMB373,033,000).

10 Intangible assets and goodwill

(i) Intangible assets — car dealership and goodwill

The car dealerships arise from prior business combinations and relate to the Group's relationship with the automobile manufacturers with an estimated useful life of 20 years, which was estimated by management with reference to the valuation reports prepared by the external valuers engaged by the Group. The fair value of the car dealerships as at the acquisition date was determined by using the multiple-period excess earning method.

(ii) Impairment testing of intangible assets — car dealership and goodwill

Having considered the impacts of macroeconomic environment changes, the intense competition in the automobile dealership industry and the recent development in customer demand observed in the Chinese automobile market post COVID, the Group's management performed an impairment assessment, assisted by an external valuer, to determine the recoverable amounts of the cash generated units (CGUs) containing intangible assets-car dealerships and/or goodwill as at 30 June 2023. Based on the management's assessment result, the Group recognised an impairment loss of goodwill of RMB32,924,000 for certain underperforming CGUs in the six months ended 30 June 2023.

The recoverable amounts of CGUs have been determined based on the higher of its fair value less costs to sell and value in use calculations using cash flow projections based on financial budgets approved by management covering a period of five years. Cash flows beyond the five-year period are extrapolated using estimated growth rate of 2.5%, which is consistent with the forecasts included in industry reports. The pre-tax discount rates applied to the cash flow projections are with a range from 17.3%-17.7%.

For a CGU which had ceased operation, a full impairment loss of RMB4,274,000 has been provided against its intangible assets — car dealership during the six months period ended 30 June 2023.

11 Inventories

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Motor vehicles	734,004	882,987
Spare parts and accessories	209,108	186,373
	<u>943,112</u>	<u>1,069,360</u>

(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	
	2023 RMB'000	2022 RMB'000
Carrying amount of inventories sold	12,976,713	11,210,172
Write-down of inventories	<u>10,074</u>	<u>10,764</u>

12 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 2023 RMB'000	At 31 December 2022 RMB'000
Within 3 month	235,041	275,874
Over 3 months	5,710	3,084
Trade debtors	240,751	278,958
Prepayments	298,876	391,125
Other receivables and deposits	811,386	888,687
Amounts due from third parties	1,351,013	1,558,770
Amounts due from related parties	4,053	1,719
Trade and other receivables	<u>1,355,066</u>	<u>1,560,489</u>

- (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.

13 Pledged bank deposits

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Restricted bank deposits pledged in respect of loans and borrowings	10,528	15,631
Restricted bank deposits pledged in respect of bills payable	682,410	894,676
	<u>692,938</u>	<u>910,307</u>

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

14 Cash and cash equivalents and fixed deposits with banks

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Fixed deposits with banks with more than three months to maturity when placed	<u>1,508,117</u>	<u>712,696</u>
Cash at banks and in hand	<u>1,745,531</u>	<u>1,635,625</u>

15 Loans and borrowings

(a) At 30 June 2023, loans and borrowings were repayable as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year or on demand	<u>1,326,553</u>	<u>1,413,918</u>
After 1 year but within 2 years	205,795	293,313
After 2 years but within 5 years	<u>165,600</u>	<u>199,500</u>
	<u>371,395</u>	<u>492,813</u>
	<u>1,697,948</u>	<u>1,906,731</u>

(b) At 30 June 2023, loans and borrowings were secured as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Secured bank loans (i)	1,675,623	1,861,382
Secured borrowings from other financial institutions (i)	<u>22,325</u>	<u>45,349</u>
	<u>1,697,948</u>	<u>1,906,731</u>

(i) As at 30 June 2023, 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 certain loans and borrowings were also guaranteed by related parties.

16 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 2023 RMB'000	At 31 December 2022 RMB'000
Within 3 months	1,256,242	1,768,061
Over 3 months but within 6 months	79,380	70,789
Total trade payables and bills payable (i)	1,335,622	1,838,850
Contract liabilities	896,391	1,019,748
Dividends payable	157,511	—
Other payables and accruals	285,550	326,161
Amounts due to third parties	2,675,074	3,184,759
Amounts due to related parties	8,677	8,113
Trade and other payables	<u>2,683,751</u>	<u>3,192,872</u>

(i) As at 30 June 2023, total bills payable amounted to RMB1,109,338,000 (31 December 2022: RMB1,370,946,000) and certain bills payable were guaranteed by a related party.

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

17 Convertible bonds

On 14 January 2022, pursuant to a subscription agreement dated 6 January 2022 (the “**Subscription Agreement**”), Sail Vantage Limited, a subsidiary of the Company, issued zero coupon guaranteed convertible bonds (“**the Convertible Bonds**”) with an aggregate principal amount of HK\$2,750,000,000 (equivalent to approximately RMB2,248,263,000) and received cash after deduction of transaction costs of HK\$2,689,517,000 (equivalent to approximately RMB2,198,814,000). Pursuant to the terms of the Convertible Bonds, the Convertible Bonds will be due in January 2027 and are guaranteed by the Company.

The Convertible Bonds may be converted into shares of the Company pursuant to the terms and conditions of the Convertible Bonds. The rights of the bondholders to convert the Convertible Bonds into ordinary shares are as follows:

- subject to redemption options pursuant to the terms and conditions of the Convertible Bonds, conversion rights are exercisable at any time from 23 February 2022 to 3 January 2027 (both days inclusive) at the bondholders’ option;
- the bond holders could convert part of or the entire outstanding bond balances at the holder’s option into fully paid ordinary shares of the Company at an initial conversion price of HK\$46.75 per share, subject to the terms and conditions of the Convertible Bonds;
- with effect from 5 August 2022, the conversion price has been adjusted to HK\$45.4881 per share pursuant to the terms and conditions of the Convertible Bonds, according to the announcements issued by the Company dated 5 August 2022;
- the number of ordinary shares to be issued on exercise of a conversion right shall be determined by dividing the principal amount of the Convertible Bonds to be converted by the conversion price in effect on the relevant conversion date.

Pursuant to the terms and conditions of the Convertible Bonds, the issuer will, at the option of the bondholder of the Convertible Bonds, redeem all or some only of such bondholder’s convertible bonds on 13 January 2025 (the “**Put Option Date**”) at 106.9428 per cent. of their principal amount.

The Convertible Bonds can be settled by exchange of a fixed amount of cash in HK\$ with a fixed number of the Company’s equity instruments. In accordance with the Group’s accounting policy, the Convertible Bonds are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition, the liability component is measured at fair value using prevailing market rate of interest for similar non-convertible debt instruments. The remainder of the proceeds is allocated to the conversion option as the equity component.

Transaction costs associated with the issuance of the Convertible Bonds are allocated to the liability and equity components in proportion to the allocation of proceeds. The liability component is subsequently carried at amortised cost calculated using the effective interest method. The equity component is recognised in other reserve until either the Convertible Bonds are converted or redeemed.

The movements of the components of the Convertible Bonds during current period are set out below:

	Liability component (At amortised cost) <i>RMB'000</i>	Equity component (Residual amount) <i>RMB'000</i>	Total <i>RMB'000</i>
At the date of issuance	1,990,299	208,515	2,198,814
Interest charge	96,488	—	96,488
Exchange adjustment	188,145	—	188,145
	<u>2,274,932</u>	<u>208,515</u>	<u>2,483,447</u>
At 31 December 2022 and 1 January 2023	<u>2,274,932</u>	<u>208,515</u>	<u>2,483,447</u>
Interest charge (<i>note 5(a)</i>)	53,241	—	53,241
Conversion (<i>note 18(d)</i>)	(8,740)	(758)	(9,498)
Exchange adjustment	75,407	—	75,407
	<u>75,407</u>	<u>—</u>	<u>75,407</u>
At 30 June 2023	<u><u>2,394,840</u></u>	<u><u>207,757</u></u>	<u><u>2,602,597</u></u>

18 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend declared after the interim period, of RMB0.0087 per ordinary share (six months ended 30 June 2022: RMB0.0808 per ordinary share)	<u><u>11,697</u></u>	<u><u>103,054</u></u>

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	
	2023	2022
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.1170 per ordinary share (six months ended 30 June 2022: RMB0.6991 per ordinary share)	<u>157,511</u>	<u>891,651</u>

(iii) *Other dividends*

During the six months ended 30 June 2023, a subsidiary of the Group declared and paid dividends to its shareholders, among which RMB35,510,000 (six months ended 30 June 2022: RMB20,460,000) was paid 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.

The number of options granted on 20 January 2014 still outstanding at 30 June 2023 and 31 December 2022 is Nil.

(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 2023, 787,500 options were exercised (six months ended 30 June 2022: 1,787,500) at a subscription price of HK\$2.58 per ordinary share for a total consideration of HK\$2,031,750 (equivalent to RMB1,818,000) and consequently, RMB70,000 and RMB1,748,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB567,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of share option.

The number of options granted on 4 January 2018 still outstanding at 30 June 2023 are 2,822,500 (31 December 2022: 3,610,000) which have an exercise price of HK\$2.58 (31 December 2022: HK\$2.58) and a remaining contractual life of 4.51 years (31 December 2022: 5.01 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 2023, 635,000 options were exercised (six months ended 30 June 2022: 740,000) at a subscription price of HK\$6.00 per ordinary share for a total consideration of HK\$3,810,000 (equivalent to RMB3,345,000) and consequently, RMB56,000 and RMB3,289,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB1,226,000 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 nil for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB610,000) (see note 5(b)(i)).

The number of options granted on 18 July 2019 still outstanding at 30 June 2023 are 3,528,750 (31 December 2022: 4,163,750) which have an exercise price of HK\$6.00 (31 December 2022: HK\$6.00) and a remaining contractual life of 6.04 years (31 December 2022: 6.54 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.

During the six months ended 30 June 2023, 12,500 options were forfeited, and 32,500 options were exercised (six months ended 30 June 2022: 82,500) at a subscription price of HK\$10.80 per ordinary share for a total consideration of HK\$351,000 (equivalent to RMB306,000) and consequently, RMB3,000 and RMB303,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB102,000 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 RMB21,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB265,000) (see note 5(b)(i)).

The number of options granted on 16 January 2020 still outstanding at 30 June 2023 are 1,712,500 (31 December 2022: 1,757,500) which have an exercise price of HK\$10.80 (31 December 2022: HK\$10.80) and a remaining contractual life of 6.55 years (31 December 2022: 7.05 years).

(v) **Share options granted on 25 May 2022**

Pursuant to a resolution of the board of directors of the Company passed on 25 May 2022, 8,901,000 share options were granted to certain eligible employees under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 8,901,000 shares of the Company in aggregate with an exercise price of HK\$26.20, among which 240,000 share options were granted to Ms. Luo Liuyu, an executive director 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 25 May 2022, 25 May 2023, 25 May 2024 and 25 May 2025, respectively, and be exercisable until 24 May 2032.

The Group recorded equity settled share-base payment expenses of RMB9,933,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB17,472,000) (see note 5(b)(i)).

During the six months ended 30 June 2023, 581,000 options were forfeited. The number of options granted on 25 May 2022 still outstanding at 30 June 2023 are 8,032,000 (31 December 2022: 8,613,000) which have an exercise price of HK\$26.20 (31 December 2022: HK\$26.20) and a remaining contractual life of 8.91 years (31 December 2022: 9.41 years)

(c) **Placement of new shares**

On 17 January 2023, the Company placed 68,000,000 new ordinary shares at the subscription price of HK\$15.05 per share. The gross proceeds of HK\$1,023,400,000 (equivalent to RMB880,778,000), net of direct share placement expenses of HK\$11,140,000 (equivalent to RMB9,587,000), were raised, of which RMB5,852,000 and RMB865,339,000 was credited to share capital and share premium account, respectively.

(d) **Conversion of convertible bonds**

During the six months ended 30 June 2023, certain holders of Convertible Bonds with principal amount of HK\$10,000,000 exercised the conversion option and converted into 219,837 ordinary shares allotted and issued by the Company at a conversion price of HK\$45.4881.

19 Commitments

Capital commitments outstanding at 30 June 2023 not provided for in the interim financial report

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Contracted for	<u>511</u>	<u>1,283</u>

20 Contingent liabilities

As of 30 June 2023, a subsidiary of the Group is respondent in legal dispute case in relation to certain investment made before 2022. While the arbitration is still ongoing and the future development cannot be estimated with certainty, the directors of the Company, having given due consideration to the legal advice and the relevant facts and circumstances, are of the opinion that it is not probable that the Group will need to make payments to the claimant.

Therefore, no provision has been made in respect of the case as at 30 June 2023.

As of 30 June 2023, except for the aforementioned contingency associated with the legal dispute case, the Group did not have any material contingent liabilities.

21 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 18(a).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2023, despite the diminishing impact of the pandemic, the Chinese consumption market did not see the expected strong rebound. Given the increased macroeconomy uncertainties and below-expectation consumer sentiment and purchasing power, automobile manufacturers and dealers faced more imminent inventory and cash flow issues. Coupled with the decreased subsidies and expected implementation of the new phase of China's National VI Emission Standard, automobile companies launched large-scale promotions to accelerate cash turnover. This, in turn, posed greater pressure on the gross profit per vehicle of dealers.

According to the statistics from the China Automobile Dealers Association, for the six months ended 30 June 2023 (the “**Period**”), sales volume of passenger vehicles in the end market was 9.656 million units, representing an increase of 4.2% yoy. Among this, benefited from the promotional activities and alleviated chip shortage, sales volume of premium brand vehicles in the end market was 1.797 million units, representing an increase of 9.7% yoy. In the first half of 2023, the performance of individual brands varied due to differences in supply and demand dynamics and pricing distinctions.

On the other hand, according to the data from the China Passenger Car Association, sales of new energy vehicles (NEVs) have seen rapid growth in recent years, with its penetration rate reached 27.6% in 2022. However, due to a combination of factors such as the waning effect of a low base, the withdrawal of subsidy policies by the government, and weak consumption sentiments and other factors, the yoy sales growth experienced deceleration. In the first half of 2023, domestic retail sales volume of NEVs was 3.086 million units, representing an increase of 37.3% yoy, as compared with the annual growth of 90.1% in 2022.

Overall, in the first half of the year, domestic automobile dealers faced challenges such as weak end-consumer demand and imbalances in supply and demand for specific brands. The industry as a whole is experiencing fierce competition. Given the planned supply adjustment of some brand manufacturers based on the market landscape, anticipation of forthcoming economic subsidy policies, coupled with the arrival of the traditional peak seasons for automobile sales, we remain cautiously optimistic and continue to adhere to our principles of high inventory turnover. Especially in a more challenging macro environment, automobile dealers need to prioritize efficient operations, robust cash flows and solid financial, while continuously reducing costs, improving efficiency, enhancing profitability and expanding market share.

BUSINESS AND FINANCIAL REVIEW

During the Period, the Group maintained a focus on prudent and conservative operations in a challenging business environment, upholding consistently high operational efficiency. The Group actively optimized its sales strategy and committed to maintaining a robust cash flow. Thanks to the Group's proactive strategy planning, both its revenue from sales of new vehicles and after-sales services saw yoy growth during the Period. In particular, sales of new vehicles of Porsche saw double-digit growth, which fully demonstrated its stability and strong brand value. Furthermore, the after-sales services of the Group maintained strong revenue growth and stable gross profit margin. With the pandemic coming to an end and the resumption of regular traveling and tourism, it is expected to see further growth in the future. Although the Group's profit for the Period was adversely impacted by factors such as unfavorable market conditions and non-cash expenses such as amortization costs resulting from acquisitions and convertible bond financing, the Group's operational efficiency remained strong. Various key performance indicators, including inventory turnover days, maintained healthy and stable levels. Our balance sheet and cash flows for the Period remained sturdy, providing stable support for the Group in the face of economic uncertainties.

Revenue for the Period

The Group recorded a revenue of approximately RMB14,088.7 million for the Period, representing an increase of approximately 11.3% yoy (first half of 2022: approximately RMB12,658.4 million). Revenue from new passenger vehicles sales increased by approximately 8.7% yoy to approximately RMB12,126.5 million (first half of 2022: approximately RMB11,152.2 million), accounting for approximately 86.1% (first half of 2022: approximately 88.1%) of the total revenue. Revenue from after-sales services increased by approximately 30.3% yoy to approximately RMB1,962.2 million (first half of 2022: approximately RMB1,506.2 million). Such an increase was mainly thanks to the efficient operations and the increased contributions from the Porsche stores.

Cost of Sales

Cost of sales increased by 15.6% from approximately RMB11,324.2 million in the first half of 2022 to approximately RMB13,087.6 million for the Period. The increase in cost of sales was mainly due to the growth of the Group's two major business segments, namely sales of new passenger vehicles and after-sales services. Among this, the cost of sales for new passenger vehicles and after-sales services increased by approximately 14.6% and 29.7%, respectively.

Gross Profit

During the Period, gross profit decreased by 25.0% from approximately RMB1,334.2 million in the first half of 2022 to approximately RMB1,001.1 million. Overall gross profit margin decreased by 3.4 percentage points to approximately 7.1% (first half of 2022: approximately 10.5%). Gross profit of new passenger vehicle sales business was impacted by the weak end-demand consumption and industry wide discount and promotions. Gross profit margin of new passenger vehicles sales decreased by 5.0 percentage points to approximately 0.2% (first half of 2022: approximately 5.2%), while gross profit margin of after-sales services remained stable at approximately 50.1% (first half of 2022: approximately 49.8%).

Costs and Expenses

During the Period, the Group incurred the following expenses arising from the acquisition of Starchase Motorsports Limited (which owns 7 Porsche stores) and associated financing in 2022: 1) an amortized cost of approximately RMB76.8 million for the relevant dealership right (first half of 2022: approximately RMB25.6 million); and 2) approximately RMB53.2 million (first half of 2022: approximately RMB44.3 million) from the amortization of the liability portion of the HK\$2,750,000,000 zero coupon guaranteed convertible bonds due 2027 adopting effective interest method in the first half of 2023. In addition, during the Period, the Group also incurred other operating costs such as impairment losses of RMB37.2 million in relation to the goodwill and intangible assets — car dealership of certain CGUs. However, as the Group strived to control its costs and improve its operating efficiency during the Period, its overall distribution costs saw certain declines. Distribution costs amounted to approximately RMB382.0 million, which accounted for approximately 2.7% of the total revenue, representing a decrease of 0.4 percentage point as compared to that of approximately 3.1% for the same period of last year. Administrative expenses were approximately RMB400.6 million, which accounted for approximately 2.8% of the total revenue, representing a decrease of 0.2 percentage point as compared to that of approximately 3.0% for the same period of last year. Finance costs amounted to approximately RMB149.3 million, which accounted for approximately 1.1% of the total revenue, remaining at a similar level as that of the same period of last year (first half of 2022: approximately 1.0%).

Taxation

During the Period, the Group's income tax expenses amounted to approximately RMB121.4 million, representing a decrease of approximately 36.4% as compared to approximately RMB190.9 million for the same period of last year. The decrease in income tax expenses was mainly due to the decrease in profit before tax, partially offset by the estimated withholding tax on dividend in respect of dividends paid and to be paid to foreign controlling company amounting to approximately RMB52.5 million.

Profit for the Period and Profit attributable to Shareholders for the Period

During the Period, the overall sales volume of new premium brand vehicles and the gross profit margin of new passenger vehicles sales were impacted by the macro environment. Coupled with the aforementioned costs and expenses, the Group's profit for the Period decreased by approximately 87.8% yoy to approximately RMB44.7 million (first half of 2022: approximately RMB366.6 million) and the profit margin for the Period also decreased by 2.6 percentage points from approximately 2.9% for the same period of last year to approximately 0.3%. The profit attributable to shareholders for the Period decreased from approximately RMB343.2 million for the same period of last year to approximately RMB39.0 million during the Period.

Dividend

The Board recommended an interim dividend of RMB0.0087 per ordinary share of the Company (the “**Share**”) for the Period (first half of 2022: RMB0.0808 per Share), with the payout ratio reaching approximately 30% (first half of 2022: payout ratio approximately 30.0%).

Joint Venture Entity

For the Period, share of profit of a joint venture amounted to approximately RMB10.8 million, representing a decrease of approximately 34.7% as compared to approximately RMB16.5 million for the same period of last year.

New Passenger Vehicles Sales

During the Period, amid the market environment that full of challenges and uncertainties, new passenger vehicles sales of the Group still recorded stable growth. Revenue from new passenger vehicles sales amounted to approximately RMB12,126.5 million (first half of 2022: approximately RMB11,152.2 million), representing an increase of approximately 8.7% as compared to the same period of last year. Sales of premium brand vehicles remained the major revenue contribution of the Group. Sales of new passenger vehicles of Porsche, BMW, Lexus and Audi aggregated to approximately RMB10,826.1 million, accounting for approximately 89.3% of the total sales of new passenger vehicles (first half of 2022: 87.2%). In terms of sales volume, under the influence of macro factors and promotional activities by automobile companies, the Group sold 31,589 new passenger vehicles in total, representing an increase of 6.5% yoy, among which sales volume of premium brands totaled 22,777 units, accounting for approximately 72.1% of the sales volume of new passenger vehicles.

After-Sales Services

During the Period, as service customer base further expanded and regular travel and tourism resumed after the lifting of pandemic related policies, growth of revenue from after-sales services remained strong. Revenue from after-sales services amounted to approximately RMB1,962.2 million (first half of 2022: approximately RMB1,506.2 million), representing an increase of approximately 30.3% yoy. The total number of vehicles served was 385,861 units, representing an increase of approximately 11.8% yoy. The gross profit margin from after-sales services remained at a healthy level of 50.1% (first half of 2022: 49.8%), driving the gross profit of after-sales services to increase by approximately 30.9% yoy.

Current Network

During the Period, the Group explored opportunities in NEVs by opening a new after-sales service center for Tesla. As of 30 June 2023, the Group has 77 self-operated stores situated in provinces and cities such as Beijing, Hebei, Hubei, Hunan, Jiangxi, Fujian, Guangdong, Gansu and Anhui, including a joint venture operated by the Group.

As at 30 June 2023, the number of stores operated by the Group was as follows:

Number of stores under operation	As of 30 June		Change
	2023	2022	
Prosche	16	16	—
BMW	27	27	—
Lexus	20	19	+1
Toyota	12	13	(1)
Hyundai	0	1	(1)
Audi	1	1	—
After-sales services for Tesla	1	0	+1
Total	<u>77</u>	<u>77</u>	<u>+0</u>

Liquidity, Financial Resources and Position

As at 30 June 2023, total equity of the Group amounted to approximately RMB5,179.7 million (31 December 2022: approximately RMB4,433.8 million), current assets amounted to approximately RMB6,244.8 million (31 December 2022: approximately RMB5,888.5 million), and current liabilities amounted to approximately RMB4,268.3 million (31 December 2022: approximately RMB4,873.7 million).

As at 30 June 2023, the Group's loans and borrowings amounted to approximately RMB1,697.9 million, representing a decrease of approximately 10.9% as compared to RMB1,906.7 million as of 31 December 2022, out of which short-term loans and borrowings amounted to approximately RMB1,326.5 million, long-term loans and borrowings amounted to approximately RMB371.4 million and convertible bonds amounted to RMB2,394.8 million (31 December 2022: approximately RMB2,274.9 million). As at 30 June 2023, the Group's gearing ratio (being the sum of loans and borrowings, convertible bonds payable and lease liabilities divided by total equity attributable to equity shareholders of the Company) was approximately 109.4% (31 December 2022: approximately 131.9%).

As at 30 June 2023, cash and cash equivalents, fixed deposits with more than three months to maturity when placed and pledged bank deposits amounted to approximately RMB3,946.6 million. Most of the cash and cash equivalents, fixed deposits with more than three months to maturity when placed and pledged bank deposits were denominated in Renminbi, USD and Hong Kong dollars. Apart from part of the cash and fixed deposits with more than three months to maturity when placed that are denominated in USD and Renminbi in overseas companies, the Group's business operations are located principally in China and a majority of its transactions are denominated in Renminbi. Therefore, the Group expects that its foreign exchange risks will have minimal effect on the Group and have no material adverse effect on its normal operations. For the six months ended 30 June 2023, the Group did not employ any significant financial instruments such as forward foreign exchange contracts, nor did it employ any financial instruments for hedging purposes. The management of the Company closely monitors its foreign exchange risks, and will consider hedging significant foreign exchange risks when appropriate.

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

Contingent Liabilities

As of 30 June 2023, a subsidiary of the Group is respondent in legal dispute case in relation to certain investment made before 2022. While the arbitration is still ongoing and the future development cannot be estimated with certainty, the directors of the Company, having given due consideration to the legal advice and the relevant facts and circumstances, are of the opinion that it is not probable that the Group will need to make payments to the claimant. Therefore, no provision has been made in respect of the case as at 30 June 2023. More information is set out in note 20 to the notes to the unaudited interim financial report above.

As of 30 June 2023, except for the aforementioned contingency associated with the legal dispute case, the Group did not have any material contingent liabilities.

Significant Investments, Material Acquisition and Disposals

The Group did not hold any significant investments, and did not make any material acquisitions nor disposals during the Period. There were no plans for material investments or capital assets which have been approved by the Board as of the date of this announcement.

Pledged Assets of the Group

As at 30 June 2023, the Group pledged property, plant and equipment, right-of-use assets, inventories, trade and other receivables, and pledged bank deposits of approximately RMB232.5 million in aggregate (31 December 2022: approximately RMB127.7 million) to secure certain loans and borrowings.

PROSPECTS

Looking forward to the second half of 2023, uncertainties such as the macro-economy and geopolitical environment are expected to continue influencing the automobile industry. However, driven by the general expectation of gradual implementation of domestic subsidies and beneficial economic policies in the market, the adjustment of supply strategies by automobile manufacturers and other positive factors, the Group believes that the supply and demand dynamic of domestic passenger vehicles will improve, providing higher profit for automobile dealers. In order to flexibly address market challenges, the Group will adhere to its sound and prudent approaches to further enhance the operating efficiency with efficient and data-driven management, while also timely optimizing our operating strategies based on changes in the macro environment to fully seize new opportunities presented by various niche markets.

Furthermore, in light of the immense prospects in the NEVs sector, the Group is proactively exploring and developing the potential of after-sales services for NEVs. The Company aims to capitalize on the higher-profit and more stable business model as an entry point into the NEV market. The first Tesla after-sales service outlet of the Group was officially launched during the Period and exhibited healthy financial performance. In the second half of the year, another Tesla after-sales service outlet has been added, further exploring opportunities in the NEV market. Meanwhile, the Group will continue to maintain a healthy balance sheet and cash flows while cautiously and prudently assessing merger and acquisition opportunities.

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 2023. 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 2023, the Group had a total of 4,520 employees (31 December 2022: 4,689), the majority of whom are based in the PRC. The total staff costs of the Group for the Period amounted to approximately RMB426.9 million (six months ended 30 June 2022: approximately RMB478.1 million). In addition to offering competitive remuneration packages to employees, 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 2023. The Group will promptly announce the progress of the relevant matters in accordance with relevant regulations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period and until the date of this announcement.

USE OF PROCEEDS FROM PLACING AND SUBSCRIPTION

In January 2023, the Company placed 68,000,000 new Shares at the subscription price of HK\$15.05 per Share. The Company received approximately HK\$1,012 million after deducting placement cost in respect of it.

Set out below is the Company’s plan on use of net proceeds from the Placing and Subscription:

Intended use of net proceeds	Percentage of total net proceeds of such issue <i>(approximately)</i>	Unutilised proceeds as at 30 June 2023 <i>(in HK\$ million)</i>
Proceeds from issue in January 2023		
Business expansion (including strategic investments and acquisitions)	50%	506
Working capital and other general corporate purposes	50%	506
Total	<u>100%</u>	<u>1,012</u>

Note: The net proceeds has not yet been utilised during the Period. The Company intends to utilise the proceeds within three years from the date of allotment. The expected timeline for utilising the 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.

During the Period, (i) upon exercise of share options under the employee’s share option scheme, 1,455,000 Shares were issued at an aggregate exercise price of approximately RMB6.19 million, and (ii) upon exercise of the Convertible Bonds at the conversion price of HK\$45.4881 per Share, 219,837 Shares were issued. As of the date of this announcement, principal amount of HK\$2,740 million of the Convertible Bonds remains outstanding, and accordingly, 61,217,832 Shares may be issued based on the prevailing conversion price of HK\$44.7582 per Share (adjusted during the Period for share placement and distribution of final dividend).

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions as set out in Part 2 of 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 2023.

At the 2022 annual general meeting, the shareholders approved the amendments to the memorandum and articles of association of the Company which reflects the amendments of Listing Rules and laws of the Cayman Islands.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as 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 2023.

SIGNIFICANT EVENT

Top-up placing of existing shares and subscription of new shares under general mandate

On 4 January 2023, the Company, Apex Sail Limited (“**Apex Sail**”) and Citigroup Global Markets Limited (the “**Placing Agent**”) entered into the placing and subscription agreement (the “**Placing and Subscription Agreement**”), pursuant to which (i) Apex Sail agreed to sell, and the Placing Agent agreed, as Apex Sail’s agent, to procure not less than six placees to purchase (or failing which, to purchase itself) a total of 68,000,000 Placing Shares at the Placing Price of HK\$15.05 per Share; and (ii) Apex Sail agreed to subscribe as principal for, and the Company agreed to issue to Apex Sail, 68,000,000 Subscription Shares (the “**Subscription Shares**”) (being equivalent to the number of Placing Shares) at the Subscription Price of HK\$15.05 per Share (which is equivalent to the Placing Price) (the “**Subscription**”), in each case on the terms and subject to the conditions set out in the Agreement. The Board considers that the Placing and the Subscription represent an opportunity to raise additional funds to strengthen the financial position, to enlarge the Shareholders’ equity and capital base of the Company in support of a sustainable overall development and expansion of the Company.

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, risks management and internal controls.

An Audit Committee meeting was held on 30 August 2023 and the Audit Committee has reviewed the unaudited interim results for the Period. KPMG, the Group’s external auditor, has carried out a review of the interim financial report for the Period 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 Hong Kong Institute of Certified Public Accountants.

INTERIM DIVIDEND AND CLOSURE OF THE REGISTER OF MEMBERS

The Board resolved to declare an interim dividend of RMB0.0087 per Share for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB0.0808 per 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 RMB11.7 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 Tuesday, 26 September 2023. The register of members of the Company will be closed from Friday, 22 September 2023 to Tuesday, 26 September 2023 (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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Thursday, 21 September 2023. It is expected that cheques for the dividend will be despatched by ordinary mail to the shareholders at their own risks on or about Wednesday, 20 December 2023.

The latest time for holders of the Convertible Bonds (Debt stock code: 4401, SAIL VAN B2701) to exercise their conversion rights in order to be entitled to the interim dividend is 4:30 p.m. on Monday, 11 September 2023.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2023 containing the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.meidongauto.com in due course.

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 contributions 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, 30 August 2023

As at the date of this announcement, the board of directors of the Company 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. TO Siu Lun

Certain figures in this announcement have been subject to rounding adjustments.