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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, 2014

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, 2014 ("**the Reporting Period**" or "**Period Under Review**"), as follows:

FINANCIAL HIGHLIGHTS

For the Reporting Period:

- Revenue increased by 47.4% to RMB7,590.0 million, especially the after-sales revenue which increased by 68.9% to RMB797.2 million, each as compared to the corresponding period in 2013.
- Gross profit increased by 73.8% to RMB727.8 million as compared to the corresponding period in 2013.
- Profit attributable to owners of the parent increased by 99.9% to RMB196.9 million as compared to the corresponding period in 2013.
- Basic earnings per share increased by 100% to RMB0.25 as compared to the corresponding period in 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended June 30, 2014

	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
REVENUE	4(a)	**7,590,036**	5,150,366
Cost of sales	5(b)	**(6,862,195)**	(4,731,590)
Gross profit		**727,841**	418,776
Other income and gains, net	4(b)	**122,326**	122,824
Selling and distribution costs		**(181,811)**	(116,056)
Administrative expenses		**(207,321)**	(120,695)
Other expense		**(6,341)**	(6,368)
Finance costs	6	**(170,510)**	(142,499)
Profit before tax	5	**284,184**	155,982
Income tax expense	7	**(80,952)**	(54,958)
Profit for the Reporting Period		**203,232**	101,024
Profit for the Reporting Period attributable to:			
Owners of the parent		**196,858**	98,487
Non-controlling interests		**6,374**	2,537
		203,232	101,024
Earnings per share attributable to ordinary equity holders of the parent:			
Basic *(RMB)*	8	**0.25**	0.12
Diluted *(RMB)*	8	**0.24**	0.12

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2014

	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the Reporting Period	**203,232**	101,024
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(105)**	(307)
Total comprehensive income for the Reporting Period, net of tax	**203,127**	100,717
Total comprehensive income for the Reporting Period attributable to:		
Owners of the parent	**196,753**	98,180
Non-controlling interests	**6,374**	2,537
	203,127	100,717

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at June 30, 2014

	Notes	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**2,414,302**	1,918,360
Land use rights	10	**348,063**	352,397
Intangible assets		**218,297**	221,559
Deferred tax assets		**4,683**	5,797
Goodwill		**207,146**	207,146
Available-for-sale investments		**102,000**	102,000
Prepayments		**8,762**	5,384
Total non-current assets		**3,303,253**	2,812,643
CURRENT ASSETS			
Inventories	11	**1,963,812**	1,639,689
Trade receivables	12	**158,327**	190,150
Prepayments, deposits and other receivables		**1,148,743**	1,137,384
Amount due from a related party	17	**559,461**	760,923
Cash in transit		**35,848**	23,345
Pledged bank deposits		**1,748,302**	1,270,078
Restricted cash	13	**92,292**	–
Cash and cash equivalents		**531,515**	417,485
Total current assets		**6,238,300**	5,439,054
TOTAL ASSETS		**9,541,553**	8,251,697
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	**885,275**	939,063
Deferred tax liabilities		**96,339**	90,297
Total non-current liabilities		**981,614**	1,029,360

	Notes	As at June 30, 2014 *RMB'000* (Unaudited)	As at December 31, 2013 *RMB'000* (Audited)
CURRENT LIABILITIES			
Trade and bills payables	*15*	**3,262,871**	2,738,062
Other payables and accruals		**720,076**	781,173
Interest-bearing bank and other borrowings	*14*	**2,903,585**	2,306,336
Income tax payable		**148,374**	137,243
Amount due to a related party	*17*	**353,221**	315,086
Total current liabilities		**7,388,127**	6,277,900
NET CURRENT LIABILITIES		**(1,149,827)**	(838,846)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,153,426**	1,973,797
EQUITY			
Equity attributable to owners of the parent			
Share capital	*16*	**2**	–
Reserves		**1,108,270**	887,271
		1,108,272	887,271
Non-controlling interests		**63,540**	57,166
Total equity		**1,171,812**	944,437
TOTAL EQUITY AND LIABILITIES		**9,541,553**	8,251,697

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated on January 15, 2014 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on August 12, 2014.

During the Reporting Period, the Group were principally engaged in the sale and service of motor vehicles.

In the opinion of Directors, the ultimate holding company of the Company is HSBC International Trustee Limited, which is incorporated in the British Virgin Island ("BVI").

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2014 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The 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 annual financial statements for the year ended December 31, 2013, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The condensed consolidated interim financial statements were presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated. These condensed consolidated interim financial statements have not been audited.

As at June 30, 2014, the Group had net current liabilities of approximately RMB1,149,827,000. 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 Group has adopted the following new and revised HKFRSs for the first time for the financial statements for the six months ended June 30, 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets — Recoverable Amount Disclosure for Non-Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.3 Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective in these financial statements.

HKFRS 9	*Financial Instruments*[2]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[2]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[1]
Annual Improvements 2010–2012 Cycle/Annual Improvements 2011–2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 11 Amendments	*Accounting for Acquisitions of Interests in Joint Operations*[3]
HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Amendments Depreciation and Amortisation*[3]
HKFRS 15	*Revenue from Contracts with Customers*[4]

1 Effective for annual periods beginning on or after July 1, 2014
2 No mandatory effective date yet determined but is available for adoption
3 Effective for annual periods beginning on or after January 1, 2016
4 Effective for annual periods beginning on or after January 1, 2017

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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 were 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 major customers segment information is presented.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	For the six months ended June 30,	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from the sale of motor vehicles	**6,792,807**	4,678,362
Others	**797,229**	472,004
	7,590,036	5,150,366

(b) Other income and gains, net

	For the six months ended June 30,	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Commission income	**93,160**	69,689
Advertisement support received from motor vehicle manufacturers	**16,365**	8,702
Bank interest income	**6,846**	6,538
Gain and income from disposal of subsidiaries	**–**	32,035
Government grants	**852**	2,145
Others	**5,103**	3,715
	122,326	122,824

5. PROFIT BEFORE TAX

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

	For the six months ended June 30, 2014 *RMB'000* (Unaudited)	2013 *RMB'000* (Unaudited)
(a) Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**128,891**	73,448
Equity-settled share option expense	**5,848**	777
Other welfare	**31,485**	24,226
	166,224	98,451
(b) Cost of sales and services:		
Cost of sales of motor vehicles	**6,416,631**	4,433,592
Others	**445,564**	297,998
	6,862,195	4,731,590
(c) Other items:		
Depreciation of items of property, plant and equipment	**78,239**	45,457
Amortisation of land use rights	**4,339**	3,569
Amortisation of intangible assets	**7,214**	1,894
Advertisement and business promotion expenses	**30,943**	22,246
Lease expenses	**17,497**	8,485
Bank charges	**7,998**	6,626
Loss on disposal of items of property, plant and equipment	**4,171**	5,090

6. FINANCE COSTS

	For the six months ended June 30, 2014 *RMB'000* (Unaudited)	2013 *RMB'000* (Unaudited)
Interest expense on bank borrowings wholly repayable within five years	**167,128**	141,915
Interest expense on other borrowings	**11,401**	4,934
Less: interest capitalised	**(8,019)**	(4,350)
	170,510	142,499

7. TAX

	For the six months ended June 30,	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Mainland China corporate income tax	**73,796**	54,675
Deferred tax	**7,156**	284
Total tax charge for the Reporting Period	**80,952**	54,958

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 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 BVI.

The subsidiaries incorporated in Hong Kong are subject to profits tax at the rate of 16.5% (six months ended June 30, 2013: 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 is 25% (six months ended June 30, 2013: 25%).

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

The calculation of basic earnings per share amounts is based on the profit for the Reporting Period attributable to ordinary equity holders of the parent, and the weighted average number of 800,000,000 ordinary shares in issue during the six months ended June 30, 2014 (800,000,000 ordinary shares during the six months ended June 30, 2013), as adjusted to reflect the share consolidation occurred after the Reporting Period (Note 18(iii)).

The calculation of diluted earnings per share amounts is based on the profit for the Reporting 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.

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

	For the six months ended June 30, 2014 *RMB'000* **(Unaudited)**	For the six months ended June 30, 2013 *RMB'000* (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation	**196,858**	98,487

	For the six months ended June 30, 2014 *RMB'000* **(Unaudited)**	For the six months ended June 30, 2013 *RMB'000* (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**800,000,000**	800,000,000
Effect of dilution-weighted average number of ordinary shares:		
Share options	**8,740,391**	7,050,882
	808,740,391	807,050,882

The weighted average number of ordinary shares used to calculate the basic earnings per share during the six months ended June 30, 2013 was 800,000,000, which were deemed to have been issued throughout the six months ended June 30, 2013, as adjusted to reflect the share consolidation occurred after the Reporting Period (Note 18(iii)).

Earnings per share

Basic *(RMB)*	**0.25**	0.12
Diluted *(RMB)*	**0.24**	0.12

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended June 30, 2014, the Group acquired assets at a consideration of RMB631,975,000 (unaudited) (for the year ended December 31, 2013: RMB798,500,000).

Assets with a net book value of RMB57,794,000 (unaudited), were disposed of by the Group during the six months ended June 30, 2014 (for the year ended December 31, 2013: RMB70,746,000), resulting in a net loss on disposal of RMB 4,171,000 (unaudited) (for the year ended December 31, 2013: RMB13,534,000),

Certain of the Group's buildings with an aggregate net book value of RMB44,327,000 and RMB43,988,000 (unaudited), as at December 31, 2013 and June 30, 2014, 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) the Group will not be imposed of fine for the use of land, (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

Included in the Group's land use rights are rights to three parcels of land, with an aggregate net book value of RMB14,290,000 and RMB14,107,000 (unaudited), as at December 31, 2013 and June 30, 2014, 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) the Group will not be imposed of fine for the use of land, (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 RMB69,106,000 and RMB65,370,000 (unaudited) as at December 31, 2013 and June 30, 2014, 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. INVENTORIES

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
Motor vehicles	**1,815,178**	1,486,684
Spare parts and accessories	**148,634**	153,005
	1,963,812	1,639,689

12. TRADE RECEIVABLES

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
Trade receivables	**158,327**	190,150
Impairment	**–**	–
	158,327	190,150

The Group's trading terms with its customers are mainly on cash, except for some transactions which are traded on credits. 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.

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

	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
Within three months	**143,507**	178,250
More than three months but less than one year	**14,820**	10,335
More than one year	**–**	1,565
	158,327	190,150

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

	June 30, 2014 *RMB'000* **(Unaudited)**	December 31, 2013 *RMB'000* (Audited)
Neither past due nor impaired	**143,507**	178,250
Less than three months past due	**14,820**	10,335
Three months to one year past due	**–**	1,565
	158,327	190,150

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.

13. RESTRICTED CASH

The Group received US$24,600,000 and US$30,000,000 in April 2014 and May 2014, respectively, from Rundong Fortune Investment Limited ("Rundong Fortune"), which is ultimately controlled by Mr. Yang Peng, to repay the then net outstanding amount due from Mr. Yang Peng to the Group. Among which, US$15,000,000 (approximate to RMB92,543,000) was deposited into a bank account jointly controlled by the Group and Cheer Hope Holdings Limited ("Cheer Hope"), one of the noteholders to which Rundong Fortune issued senior secured guaranteed notes in May 2014. The Company has assigned the balance in this jointly controlled bank account in favour of Cheer Hope. The Group shall not transfer or close this bank account, nor receive payment from or otherwise deal with the deposit in this account. Such restrictions and the security shall be released upon the earlier of (i) the underwriting agreements of the Company shares listing on the Main Board of the Stock Exchange of Hong Kong Limited ("the Listing") becoming unconditional and effective under a qualified IPO; or (ii) the date that all the obligations under the senior secured guaranteed notes of US$15,000,000 issued to Cheer Hope have been fully discharged. The restrictions and security has been released upon the Company's successful listing on Stock Exchange of Hong Kong.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	June 30, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Effective interest rate *(%)*	*RMB'000*	Effective interest rate *(%)*	*RMB'000*
Current				
Bank loans	**6.00–9.00**	**2,681,551**	5.60–24.00	2,129,008
Other borrowings	**6.50–10.98**	**222,034**	4.83–9.94	177,328
		2,903,585		2,306,336
Non-current				
Bank loans	**8.00–8.32**	**885,275**	5.94–24.00	939,063
		3,788,860		3,245,399

15. TRADE AND BILLS PAYABLES

	June 30, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**99,628**	79,596
Bills payable	**3,163,243**	2,658,466
Trade and bills payables	**3,262,871**	2,738,062

An aged analysis of the trade and bills payables as at each of the reporting date, based on the invoice date, is as follows:

	June 30, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**2,503,356**	2,628,546
3 to 6 months	**753,413**	104,647
6 to 12 months	**1,769**	929
Over 12 months	**4,333**	3,940
	3,262,871	2,738,062

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

16. SHARE CAPITAL

	As at June 30, 2014
	RMB'000
	(Unaudited)
Authorised:	
250,000,000,000 ordinary shares of USD0.0000002 each	**305**
Issued and fully paid:	
2,000,000,000 ordinary shares of USD0.0000002 each	**2**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on January 15, 2014 with an initial authorised share capital of US$50,000 divided into 250,000,000,000 ordinary shares of US$0.0000002 each. On the date of incorporation, one share was issued to the parent of the Company (representing the then entire issued share capital of the Company).

On January 22, 2014, the parent of the Company entered into an equity transfer agreement with the Company pursuant to which the Company acquired all of the issued share capital in each of the subsidiaries incorporated in the BVI directly held by the parent of the Company. The Company allotted and issued 1,999,999,999 shares at par value to the parent of the Company as the consideration of this transfer. Immediately after this transfer, the Company became the holding company of the other subsidiaries comprising the Group.

17. 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 the controlling 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 June 30, 2014:

	For the six months ended June 30,	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Repayment from/(advance to) the controlling shareholder Mr. Yang Peng	**239,597**	(78,207)

(b) Outstanding balances with a related party:

Due from a related party

	June 30, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mr. Yang Peng	**559,461**	760,923

Due to a related party

	June 30, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mr. Yang Peng	**353,221**	315,086

Amounts due from/to a related party are interest free, unsecured and with no fixed repayment term.

(c) Compensation of key management personnel:

	For the six months ended June 30,	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short term employee benefits	**2,531**	1,347
Pension scheme contributions	**121**	95
Equity-settled share option expense	**22,286**	1,316
Total compensation paid to key management personnel	**24,938**	2,758

18. EVENTS AFTER THE REPORTING PERIOD

There are no significant events undertaken by the Group after June 30, 2014, other than the following events:

(i) On July 23, 2014, Rundong Fortune Investment Limited, Cheerful Autumn Holdings Limited, Rue Feng Holdings Limited and Mr. Yang Peng (collectively, the "**Controlling Shareholders**") entered into a deed of indemnity with the Company, pursuant to which the Controlling Shareholders agreed to indemnify the Group from any loss, liability and associated claims in connection with, among others, buildings and land properties matters as set out in Notes 9 and 10, respectively.

(ii) On July 23, 2014, the Directors of the Group declared a special dividend of RMB330 million with RMB89.45 million, RMB226.11 million and RMB14.44 million for the years ended December 31, 2012 and 2013 and for the three months ended March 31, 2014, respectively, to the Group's then shareholders, conditional upon the Underwriting Agreements (as defined in the prospectus of the Company dated July 31, 2014) becoming unconditional and effective. The Underwriting Agreements became unconditional and effective on August 12, 2014.

(iii) Pursuant to the shareholder's resolutions of the Company dated July 23, 2014, conditional upon the Underwriting Agreements becoming unconditional and effective but before the Listing, every ten ordinary shares in the capital of the Company of US$0.0000002 each were consolidated into four ordinary shares of the Company of US$0.0000005 (the "**Share Consolidation**"). The Underwriting Agreements became unconditional and effective on August 12, 2014. After the Share Consolidation but before the Listing, the Company's issued share numbers were consolidated to 800,000,000 ordinary shares of US$0.0000005 each from 2,000,000,000 ordinary shares of US$0.0000002 each with no change in share capital.

(iv) On August 5, 2014, Mr. Yang Peng had fully settled all outstanding amount owed by him to the Group (Note 17).

(v) In connection with the Company's Global Offering (as defined in the prospectus of the Company dated July 31, 2014), 244,974,000 shares with a nominal value of US$0.0000005 each were issued at a price of HK$3.58 per share for a total cash consideration, before deducting underwriting fees, commissions and related expenses, of HK$877 million. In addition, the Company received HK$81.7 million from the Runda (PTC) Limited upon completion of the Global Offering for settlement of the scheme share price for 73,750,000 scheme shares (or 29,500,000 shares after the Share Consolidation). Dealings in shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") commenced on August 12, 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the first six months of 2014, China's economy grew steadily as a whole, driven by a series of targeted control measures established by the Chinese government to support and assure economic reforms and structural adjustments. According to the National Bureau of Statistics of China, the nation's gross domestic product (GDP) reached RMB26,904.4 billion, up 7.4% compared with the same period in 2013. In the affluent coastal regions of Eastern China where the Group strategically focuses its operations, including Jiangsu and Shandong provinces, Shanghai and Zhejiang province, the aggregate GDP of these four regions accounted for more than 30% of the country's total GDP during the Period Under Review. In the first six months of 2014, the GDP of Jiangsu and Shandong provinces recorded rapid growth by 8.9% and 8.8%, respectively, both higher than the national average.

China's passenger vehicle market continued to show robust growth in the first half of 2014. The production volume of passenger vehicles, including cars, sports utility vehicles (SUV) and multi-purpose vehicles was in aggregate 9.70 million units for the Period Under Review, up 12.1% from the same period in 2013, while the total sales volume of passenger vehicles was 9.63 million units for the Period Under Review, up 11.2% from the same period in 2013.

Luxury and ultra-luxury automobiles loomed large in the passenger vehicle market, due to the stronger spending power of consumers, as well as the rising demand for vehicle upgrades, and product line expansion by luxury automobile manufacturers that boosted customer spending by offering more entry-level luxury automobile categories. During the first half of 2014, the luxury automobile segment maintained a rapid growth in terms of sales volume, and major luxury brands still held a dominant share with double-digit growth. According to the relevant automobile manufacturers, for the Period Under Review, the total sales volume in China for BMW/MINI, Land Rover & Jaguar and Audi was 225,035 units, 62,500 units and 268,666 units respectively, up by 23.1%, 48.2% and 17.8% respectively from the same period in 2013. The mid- to high-end automobile market also recorded a steady growth. The sales volume in China for Buick, Chang'an Ford, Nissan and Beijing Hyundai was 450,421 units, 428,238 units, 620,297 units and 551,417 units respectively, up by 10.4%, 10.3%, 14.6% and 7.9% respectively from the same period in 2013.

Meanwhile, as at December 31, 2013, China's total car parc reached 137 million units. Driven by the fast growth in car ownership, China's after-sales vehicle service market is expanding rapidly.

BUSINESS REVIEW

As a leading luxury automobile dealership group in Eastern China, the Group's operations focus on the country's affluent coastal regions, including Jiangsu and Shandong provinces, Shanghai and Zhejiang province which collectively have China's largest luxury and ultra-luxury vehicle market. In addition, the Group continues to build a high density dealership network that has significantly enhanced its operational efficiency and service capabilities. During the Period Under Review, the Group gained leverage from development opportunities arising from China's fast growing passenger vehicle market, with a focus on luxury and ultra-luxury automobile brands. The Group achieved respectable results by expanding its high density dealership network in the affluent coastal regions of Eastern China, as well as improving its operational efficiency through better store management and a constantly improved CRM system.

A well-balanced premium brand portfolio

Our strategic focus on luxury and ultra-luxury automobile brands enables us to capture future growth opportunities in the automobile market. The Group's strategy is to further focus on the luxury automobile brands with great popularity in China, including BMW/MINI, Land Rover & Jaguar and Audi. The Group successfully obtained authorization from Ferrari, and opened its first showroom in June 2014. This new development will further optimize and enhance the Group's brand portfolio.

Currently, the Group has a well-balanced brand portfolio comprising of luxury, ultra-luxury, and mid- to high-end automobile brands. As of June 30, 2014, the Group's brand portfolio included seven luxury automobile brands, including BMW, MINI, Land Rover, Jaguar, Audi, Lexus and Cadillac; two ultra-luxury automobile brands, including Maserati and Ferrari; and 13 mid- to high-end automobile brands, including Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan and Zhengzhou Nissan.

Continued regional leadership and a high density network

We achieved our network expansion to date through organic growth and, to a lesser extent, selected acquisitions. The Group has strategically focused on the affluent coastal regions of Eastern China, including Jiangsu and Shandong provinces, Shanghai and Zhejiang province, which collectively have China's largest luxury and ultra-luxury vehicle market. The Directors believes that our high density dealership network in these targeted regions, and our successful track record in effective targeted marketing, have enabled the Group to achieve success in brand recognition as well as customer loyalty.

During the Reporting Period, the Group opened an automobile dealership store for Land Rover & Jaguar in Huai'an, Jiangsu province and a showroom for Maserati and Ferarri in Jinan, Shandong province. As at June 30, 2014, the Group operated 51 automobile dealership stores in total, of which 36 were located Jiangsu province, eight in Shandong province, three in Shanghai, three in Zhejiang province and one in Anhui province. Out of the Group's 51 automobile dealership stores, 28 or 54.9% specialized in luxury and ultra-luxury automobile brands, while 23 or 45.1% specialized in mid- to high-end automobile brands.

As at June 30, 2014, the Group has obtained authorization or non-binding letters of intent from automobile manufacturers to establish another 15 automobile dealership stores, including a new BMW 4S dealership store that will displace the current repair center under Lianyungang Zhibao Automobile Sales and Services Company Limited. All of these new stores will specialize in luxury and ultra-luxury automobile brands, and will include five 4S dealership stores for BMW, one showroom for BMW, one 5S dealership store for BMW/MINI, three 4S dealership stores for Land Rover & Jaguar, one 3S dealership store for Maserati and Ferarri; as well as one BMW repair center, one BMW fast-lane repair center, one BMW pre-owned automobile trading center, and one Maserati and Ferrari repair center. They will further bolster the Group's luxury and ultra-luxury brand dealership network.

As at June 30, 2014, the distribution of the Group's network of dealership stores was as follows:

	Brand	Number of stores
Luxury and ultra-luxury brands	Maserati and Ferarri	2
	BMW and MINI	16
	Land Rover & Jaguar	4
	Lexus	1
	Cadillac	2
	Audi	3
Mid- to high-end brands	Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan, and Zhengzhou Nissan.	23
Total		51

Luxury and ultra-luxury brands continued to drive business growth

For the Period Under Review, the Group's revenue from new automobile sales was RMB6,793 million, up 45.2% from the same period in 2013, and the revenue from sales of luxury and ultra-luxury automobiles reached approximately RMB4,914 million, up 51.1% from the same period in 2013, which accounted for about 72.3% (six month ended June 30, 2013: 69.5%) of the Group's total revenue from new automobile sales.

In terms of sales volume during the Reporting Period, the Group sold 27,628 units of automobiles redundant, representing an increase of 8,297 units or 42.9% from 19,331 units for the same period in 2013. During the Period Under Review, 11,566 units of luxury and ultra-luxury automobiles were sold by the Group, representing an increase of 4,444 units or 62.4% from 7,122 units for the same period in 2013. The increased sales of luxury and ultra-luxury automobiles drove the growth in the Group's revenue from new automobile sales, and also contributed to the growth of Group's after-sales and value-added service businesses.

In addition, for the Period Under Review, the Group's revenue from sales of mid- to high-end automobiles increased by 31.7% to RMB1,879 million from the same period in 2013. During the Period Under Review, the Group sold 16,062 units of mid- to high-end branded automobiles, representing an increase of 3,853 units or 31.6% from 12,209 units for the same period in 2013. The steady growth of sales of these mid- to high-end automobiles further strengthens our well-balanced brand portfolio.

Innovative business model

With a customer-oriented business philosophy, the Group strives to provide tailor-made services to our customers throughout the entire customer spending cycle. In addition to implementing an advanced CRM system, we have established a dedicated CRM sales team. Our CRM system allows us to collect, analyze and filter customer information. We can then generate targeted marketing leads based on our customer profiles, which in turn enable us to effectively tailor our sales efforts and fully utilize the distribution of our sales network. Our CRM sales team solicits customers through innovative sales and marketing channels, such as an online marketing platform leveraged through a cloud-based database. With the effective implementation of CRM system, the number of our existing customers increased from 186,000 as at December 31, 2013 to 276,000 as at June 30, 2014. Our customer database contained information of 363,000 customer leads (i.e., potential customers accessed by our marketing platform) as of June 30, 2014, more than double the number of 180,000 as of December 31, 2013.

We have also developed a multi-channel sales platform by leveraging our integrated CRM system that extends our interaction with customers while minimizing sales expenses. In addition to traditional sales channels such as automobile dealership stores and automobile exhibitions to reach our customers, we also make extensive use of innovative sales and marketing channels, such (i) a marketing platform leveraged through a cloud-based database, call centers, instant messaging and SMS, (ii) online sales platforms (including Bitauto.com, Autohome.com.cn, Pcauto.com.cn and Xcar.com, (iii) social networking and microblogging services (including Weibo and WeChat), and (iv) iOS and Android Apps, "潤東行", to our customers. Our extensive use of social media tools and online marketing platforms has helped us to attract younger customers, and allows us to incur lower advertisement and marketing expenses when compared with traditional marketing channels. At the same time, the incorporation of our CRM system in the ERP system has assisted our Group to allocate our resources effectively and optimize business performance in strategically focused regions.

Fast growth in after-sales and value-added services

The Group has established a service chain throughout the entire automobile-related spending cycle that includes diversified and comprehensive after-sales and value-added services. Our after-sales services not only encompass conventional services (such as automobile repairs and maintenance and the sales of automobile spare parts, accessories and other automobile-related products) but also include new services such as extended warranties, which we expect to have great growth potential. Additionally, we have diversified our sources of revenue by providing a broad range of value-added services, including consulting services for automobile purchase financing, automobile insurance agency services and financial leasing services, as well as services for facilitating the trading of pre-owned automobiles.

To facilitate the trading of pre-owned automobiles, we have set up a pre-owned automobile trading center in Xuzhou, Jiangsu province. In addition, our wholly-owned subsidiary Xuzhou Rongchuang Automobile Services Company Limited provides consulting service for automobile purchase financing in cooperation with a variety of automobile manufacturers' financial companies and commercial banks. Certain of our automobile dealership stores have cooperated with third-party financial lease providers. We have also established our own financial leasing company in the Shanghai Pilot Free Trade Zone, to provide financial leases and related consulting services directly to our customers.

Our after-sales service business has grown rapidly due to the continued growth of our customer base and revenue contribution in luxury and ultra-luxury automobiles. During the Reporting Period, (i) our revenue from after-sales services reached approximately RMB797 million, up 68.9% from the same period in 2013, and accounted for 10.5% of our total revenue (for the six months ended June 30, 2013: 9.2%), (ii) our gross profit from after-sales services amounted to RMB352 million, up 102.1% from the same period in 2013, representing a gross profit margin of 44.1% (for the six months ended June 30, 2013: 36.9%).

The increase in our gross profit from after-sales services was mainly due to an increase in accumulated number of automobiles that we sold by us in prior periods that returned for after-sales services, the contribution by eight new automobiles dealership stores that opened or were acquired by the Group between June 30, 2013 and June 30, 2014, an increase in the utilization rate of our labor for after-sales services as our newly established stores continued to ramp up their after-sales business, and our particular focus on luxury and ultra-luxury automobiles which we generally charge higher prices as compared with mid- to high-end automobiles. Meanwhile, we have also benefited from our outstanding development capabilities and leading business platforms such as the CRM system, which enabled us to retain existing customers while attracting new customers by providing them with efficient, convenient and high quality after-sales services.

During the Reporting Period, our commission income from consulting services for automobile purchase financing, automobile insurance agency services and our services for facilitating trading of pre-owned automobiles amounted to RMB93.16 million, up 33.7% from the same period in 2013, primarily due to the increased amount of automobile financing products and insurance policies sold through our automobile dealership stores. This increase is in line with the significant rise in our automobile sales volume, especially for luxury and ultra-luxury automobiles. The Group believes that the demand for after-sales and value-added services will continue to grow with the increasing car parc in the regions where we focus our operations.

Awards and recognition

During the Reporting Period, the Group was awarded the 2013 Top 100 Private Enterprise in Jiangsu Province, the 2013 Industry Preferred Brand in Xuzhou City, and was ranked 21st in the 2013 Top 100 List of China's Automobile Dealership Group, in recognition of our excellent automobile services.

OUTLOOK AND STRATEGY

Looking into the second half of the year, it is expected the macro economy of China will maintain stable growth. We believe that with certain factors including a growing demand for automobiles and expedited consumption, China's automobile market will continue to expand steadily in the future. The market for luxury and ultra-luxury automobiles on which the Group focuses its operations still has tremendous room for growth. In particular, leveraging the rising ownership of luxury automobiles in the Eastern China where the Group's business is located, we are well positioned for further in-depth exploration of customer's potential value in the future.

Going forward, the Group plans to expand our network of automobile dealerships stores through a combination of opening new automobile dealership stores and prudent acquisitions of automobile dealerships. While concentrating on the 4S dealership network development, we will continue to expand and bolster our after-sales service business, including opening a pre-owned automobiles trading center and a fast-lane repair center for which we have obtained automobile manufacturers' authorization. Under such plan, we will continue to strengthen our customer service capabilities in the affluent coastal regions of Eastern China. In the meantime, we will pursue opportunities to cooperate with other leading automobile manufacturers, with a focus on luxury and ultra-luxury brands. In this way, we can complement our geographic network and brand portfolio, enhance our product mix for passenger vehicles and strengthen our market position in the target markets.

Customer management (including our continually upgraded CRM system) is one of our strengths. The Group will continue to optimize its online and offline processes and standards, in order to further expand our customer base and enhance our operational efficiency. More importantly, new business models, such as E-business cooperation and the development of after-sales services will lay a foundation for accumulating customer and management of customers' potential value. Through our in-depth analysis of the customer information in our customer database, we believe that an improved management system will enable us to better track, monitor and analyze our key operating data, and achieve more efficient management and better allocate our resources.

Meanwhile, our after-sales services and automobile-related value-added businesses are the key drivers of our future business development. These services are expected to generate recurring revenue and relatively high profit margins, while also bringing relatively high growth potential and sustainability. Leveraging our strong customer management capabilities, our leading position in the regional market and our established platforms and marketing channels we will be able to continue to develop our automobile purchase financing consulting, financial leasing, insurance agency, and other automobile-related services. In addition, we will strengthen our presence in other relatively new value-added services, such as services for facilitating trading of pre-owned automobiles, extended warranty services and fast-repair services within local communities.

In addition, we are committed to strengthening our operating capabilities and enhancing our same-store sales growth. We plan to continue our efforts to enhance our employee training programs, while upgrading our centralized ERP system over the next 12 months. This will further enhance our operating efficiency, optimize capital and resources allocation and strengthen our capability for portfolio pricing.

FINANCIAL REVIEW

Revenue

For the Period Under Review, our revenue was RMB7,590.0 million, representing a growth of approximately 47.4% compared to the same period in 2013. The increase was primarily attributable to an increase of RMB2,114.4 million, or 45.2%, in automobile sales revenue, particularly from the sales of luxury and ultra-luxury automobiles, as compared to the same period in 2013.

The table below sets out the Group's revenue for the Reporting Periods indicated.

	Unaudited For six months ended June 30, 2014		Unaudited For six months ended June 30, 2013		1H2014 VS. 1H2013
Revenue Source	**Revenue** *(RMB'000)*	**Contribution** *(%)*	Revenue *(RMB'000)*	Contribution *(%)*	Change *(%)*
Automobile sales	**6,792,807**	**89.5**	4,678,362	90.8	45.2
After-sales business	**797,229**	**10.5**	472,004	9.2	68.9
Total	**7,590,036**	**100**	5,150,366	100	47.4

Revenue from the sales of automobiles increased by RMB2,114.4 million in the Period Under Review compared to the same period in 2013, mainly driven by the incremental sales from new stores opened in 2013 and sales growth in mature stores. Automobile sales accounted for 89.5% 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 approximately 72.3% (six months ended June 30, 2013: 69.5%) and 27.7% (six months ended June 30, 2013: 30.5%), respectively, of our revenue from the sales of automobiles.

Revenue from our after-sales business increased by 68.9%, from RMB472.0 million for the six months ended June 30, 2013 to RMB797.2 million for the same period in 2014. The increase in revenue from our after-sales and other services business was attributable to (i) the contribution to after-sales and other services by eight new automobile dealership stores that we opened or acquired between June 30, 2013 and June 30, 2014, including three Audi dealership stores that we acquired from a third party in October 2013; (ii) the continued ramp-up of the after-sales and other value-added services business by our newly established stores; and (iii) our increased focus on servicing luxury and ultra-luxury automobiles, for which we generally charge higher price than for mid- to high-end automobiles.

Cost of sales and services

Our cost of sales and services increased by 45.0%, from RMB4,731.6 million for the six months ended June 30, 2013 to RMB6,862.2 million for the same period in 2014. This increase is consistent with the growth in our sales throughout the Period Under Review.

The cost of sales and services attributable to our automobile sales business amounted to RMB6,416.6 million for the Period Under Review, representing an increase of RMB1,983.0 million, or 44.7%, from the same period in 2013. The cost of sales attributable to our after-sales business amounted to RMB445.6 million for the six months ended June 30, 2014, representing an increase of RMB147.6 million, or 49.5%, from the same period in 2013.

Gross profit and gross profit margin

Gross profit for the Period Under Review was RMB727.8 million, representing an increase of RMB309.1 million, or 73.8%, from the same period in 2013. Gross profit from automobile sales increased by 53.7% from RMB244.8 million for the six months ended June 30, 2013 to RMB376.2 million for the same period in 2014, of which RMB321.9 million were from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business increased by 102.1% from RMB174.0 million for the six months ended June 30, 2013 to RMB351.2 million for the same period in 2014. Automobile sales and after-sales business contributed to 51.7% and 48.3%, respectively, of our total gross profit for the Period Under Review.

Gross profit margin for the six months ended June 30, 2014 was 9.6%, higher than gross margin of 8.1% in the same period in 2013, of which the gross profit margin of automobile sales was 5.5% compared to 5.2% of the same period in 2013, and after-sales business was 44.1% compared to 36.9% of the same period in 2013. The increase in our gross profit margin was mainly due to (i) an increase in the gross profit margin for our after-sales and other services business, as the utilization rate of our labor for after-sales and other services increased and we focused more on servicing luxury and ultra-luxury automobiles, which generally has a higher margin than that for mid- to high-end automobiles, (ii) the increased percentage contribution to our total revenue by our after-sales and other services business as our relatively young network continued to ramp up its sales and services, and (iii) an increase in gross profit margin for our automobile sales business, because we sold more higher-margin luxury and ultra-luxury automobiles and the demand for certain mid- to high-end automobiles picked up as the adverse market effect of the Diaoyu Islands dispute gradually decreased.

Other income and net gains

Other income and net gains decreased slightly from RMB122.8 million from the six months ended June 30, 2013 to RMB122.3 million for the same period in 2014, mainly due to a decrease in gain and income from disposal of subsidiaries from RMB32.0 million for the six months ended June 30, 2013 to zero for the same period of 2014, partially offset by an increase in our commission income from RMB69.7 million for the six months ended June 30, 2013 to RMB93.2 million for the same period of 2014 and an increase in the advertisement support received from motor vehicle manufacturers from RMB8.7 million for the six months ended June 30, 2013 to RMB16.4 million for the same period of 2014. Our commission income increased mainly due to the increased amount of automobile financing products and insurance policies sold through our stores, which was in line with the increased automobile sales.

Profit from operations

As a result of the foregoing, our profit from operations increased by 82.2% from RMB156.0 million in the six months ended June 30, 2013 to RMB284.2 million in the same period of 2014.

Profit for the Reporting Period

As a result of the cumulative effect of the foregoing, our profit increased by 101.2% from RMB101.0 million in the six months ended June 30, 2013 to RMB203.2 million in the same period of 2014.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at June 30, 2014, our cash and cash equivalents amounted to RMB531.5 million, representing an increase of 27.3% from RMB417.5 million as at December 31, 2013.

Our primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new dealership stores and to fund our working capital and normal operating expenses. We financed our liquidity requirements through a combination of short-term bank loans and 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 and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time. For the Reporting Period, net cash generated from operating activities, net cash used in investing activities, and net cash used in financing activities were RMB456.4 million (six months ended June 30, 2013: RMB99.6 million), RMB659.4 million (six months ended June 30, 2013: RMB439.3 million), and RMB317.1 million (six months ended June 30, 2013: RMB89.2 million of net cash generated from financing activities), respectively.

Net current liabilities

As at June 30, 2014, we had net current liabilities of RMB1,149.8 million as of June 30, 2014 compared with net current liabilities of RMB838.8 million as of December 31, 2013. This increase was primarily due to our use of a significant portion of our cash generated from operating activities and to a lesser extent, short-term bank loans in the Reporting Period to purchase property, plant and equipment and land use rights for our new stores, which became our non-current assets. As of June 30, 2014, we had unutilized and unrestricted loan facilities of RMB1,142.0 million from commercial banks. Our unutilized loan facilities from commercial banks as of June 30, 2014 carried interest rates that are generally 105% to 130% of the PBOC benchmark interest rates for loans of the same maturities prevailing at relevant drawdowns. Our Directors believe that given the credit facilities available to us, the proceeds that we expect to receive from the Global Offering, and with the continuing ramp-up of the sales of our relatively young dealership stores, we will be able to improve our liquidity position in the future.

Capital expenditure

Our capital expenditures primarily comprise of expenditures on property, plant and equipment, land use rights and intangible assets. During the Period Under Review, our total capital expenditure was RMB719.8 million (for the six months ended June 30, 2013: RMB452.3 million).

Inventory

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

Our inventory increased by 19.8% from RMB1,639.7 million as at December 31, 2013 to RMB1,963.8 million as at June 30, 2014, primarily due to (i) seasonal factors in automobile sales which led to an increase in inventory in mid-2014 as compared to the end of 2013; (ii) supply cycles of certain brands that caused the inventory as at June 30, 2014 to be relatively higher as compared to December 31, 2013; and (iii) the two newly opened automobile dealership stores for luxury and ultra-luxury brands Land Rover & Jaguar and Maserati and Ferrari in June 2014, resulting a further increase in inventory.

Our average inventory turnover days in the Period Under Review increased to 47.3 days from 46.1 days in the same period in 2013.

Bank loans and other borrowings

As at June 30, 2014, the Group's available and unutilized banking facilities amounted to approximately RMB1,142.0 million (December 31, 2013: RMB6,134.4 million).

Our bank loans and other borrowings as at June 30, 2014 were RMB3,788.9 million, an increase of RMB543.5 million from RMB3,245.4 million as at December 31, 2013. The increase was mainly due to (i) our capital expenditures on stores under construction; and (ii) increased working capital requirements for our new stores.

Interest rate risk and foreign exchange rate risk

The Group currently has not used any derivatives to hedge interest rate risk. The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group's assets and liabilities denominated in US$ and HK$ are mainly held by certain subsidiaries incorporated outside Mainland China which have US$ as their functional currencies.

The Group did not have any material foreign currency transactions in Mainland China for the Period Under Review. The Group had minimal exposure of foreign currency risk. We did not use any derivative financial instruments to hedge our exposure to the foreign exchange rate risk during the Period Under Review.

Gearing ratio

Our gearing ratio (as defined as total interest-bearing bank and other borrowings divided by total equity as at the respective period-end date and multiplied by 100%) as at June 30, 2014 was 323.3% (December 31, 2013: 343.6%).

Human resources

As at June 30, 2014, the Group had approximately 4,419 employees (December 31, 2013: 4,125). Total staff costs for the Period Under Review, excluding directors' remuneration were approximately RMB166.2 million (six months ended June 30, 2013: RMB98.5 million).

The Group values the recruiting and training of quality personnel. 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 at June 30, 2014, we had provided a guarantee to a commercial bank in China in respect of a short-term bank facility to an independent third party with an amount of RMB5.0 million. As part of the mutual arrangement between the Group and this independent third party, the independent third party and its affiliates in return provided similar financial guarantees ("Cross Guarantees") for the Group in Mainland China as security for the utilised banking facilities of the Group with an amount of RMB20.0 million as at June 30, 2014. As at June 30, 2014, save as otherwise disclosed herein, and apart from intra-group liabilities, we did not have any bank overdrafts or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities, or debt securities. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

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, 2014, the pledged group assets amounted to approximately RMB966,469,000 million.

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

During the Period Under Review, since the Company was not listed on the Stock Exchange, and neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company was incorporated in the Cayman Islands on January 15, 2014 as an exempted company with limited liability, and the shares (the "**Shares**") of the Company were listed on the Main Board of the Hong Kong Stock Exchange on August 12, 2014 (the "**Listing Date**").

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**"). Throughout the period from the Listing Date to the date of this announcement, the Company has fully complied with the code provisions set out in the CG Code, except for the deviations from code provisions A.2.1 which 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 president (an equivalent position to a chief executive officer) of the Company. The Board believes that vesting the roles of the Chairman and president 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 believe 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 commencing on the Listing Date and ending on the date of this announcement.

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 does not recommend the payment of any interim dividend to shareholders of the Company for the six months ended June 30, 2014 (for the six months ended June 30, 2013: 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 two independent non-executive Directors, being Mr. Lee Conway Kong Wai (chairman) and Mr. Peng Zhenhuai, and one non-executive Director, being Mr. Yan Sujian.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to 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
Zhou Jian
Joint Company Secretary

Hong Kong, August 30, 2014

As at the date of this announcement, the executive Directors are Mr. Yang Peng, Mr. Liu Dongli, Mr. Zhao Zhongjie, Mr. Liu Jian and Mr. Li Xiang; the non-executive Directors are Mr. Liu Haifeng David, Mr. Zhao Fu and Mr. Yan Sujian; and the independent non-executive Directors are Mr. Peng Zhenhuai, Mr. Mei Jianping, Mr. Lee Conway Kong Wai and Mr. Xiao Zhengsan.