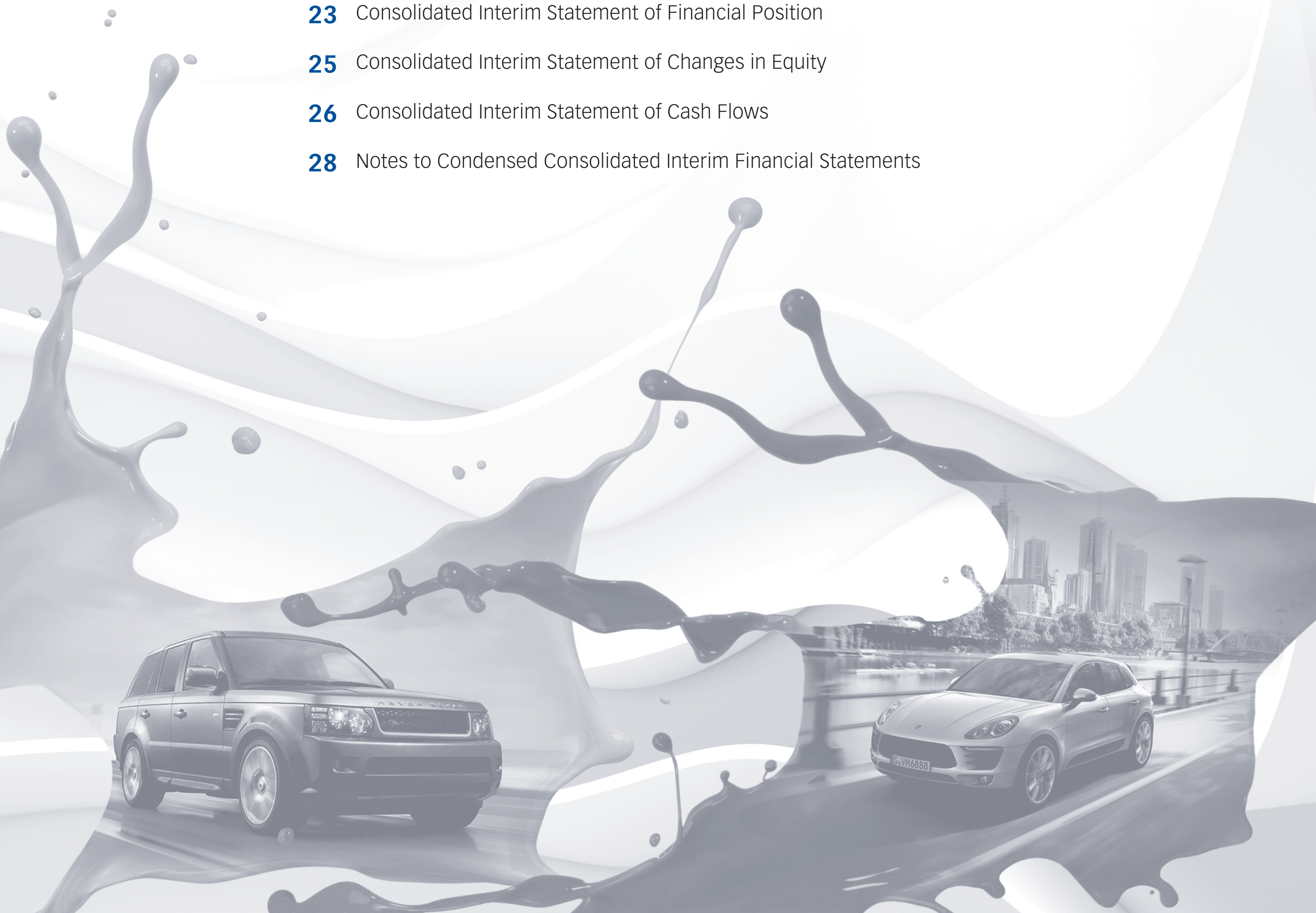
BAOXIN AUTO GROUP LIMITED
寶信汽車集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock code 股份代號：1293

2014
Interim Report
中期報告

Contents



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. YANG Aihua *(Chairman)*
Mr. YANG Hansong *(Vice Chairman & Chief Executive Officer)*
Mr. YANG Zehua *(Vice President)*
Ms. HUA Xiuzhen
Mr. ZHAO Hongliang *(Vice President)*

Non-executive Director

Mr. LU Linkui

Independent Non-executive Directors

Mr. DIAO Jianshen
Mr. WANG Keyi
Mr. CHAN Wan Tsun Adrian Alan

AUDIT COMMITTEE

Mr. DIAO Jianshen *(Chairman)*
Mr. WANG Keyi
Mr. CHAN Wan Tsun Adrian Alan

REMUNERATION COMMITTEE

Mr. DIAO Jianshen *(Chairman)*
Mr. YANG Hansong
Mr. WANG Keyi

NOMINATION COMMITTEE

Mr. WANG Keyi *(Chairman)*
Mr. YANG Hansong
Mr. DIAO Jianshen

Joint Company Secretaries

Mr. CHEN Changdong
Ms. PAU Lai Mei

AUTHORISED REPRESENTATIVES

Mr. YANG Hansong
Ms. PAU Lai Mei

STOCK CODE

1293

WEBSITE

www.klbaoxin.com

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE

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PRINCIPAL SHARE REGISTRAR

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Grand Cayman, KY1-1102, Cayman Islands.

HONG KONG BRANCH SHARE REGISTER

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COMPLIANCE ADVISER

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Central, Hong Kong.

LEGAL ADVISER TO HONG KONG LAW

Cleary Gottlieb Steen & Hamilton (Hong Kong)
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Causeway Bay, Hong Kong.

AUDITORS

Ernst & Young
Certified Public Accountants
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1 Tim Mei Avenue, Central, Hong Kong.

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors" and each, a "Director") and the management of Baoxin Auto Group Limited (the "Company" or "our Company" and together with its subsidiaries, "Baoxin", "we", "us", "our", the "Group" or "our Group"), I am pleased to present the results report of the Group for the first six months of 2014.

In the first half of 2014, China's macro economy continued to slow down, with GDP growth at 7.4%, representing the lowest growth since the global financial crisis in 2008. Since 2012, the auto industry in China has been undergoing structural changes, resulting in both challenges and opportunities for the Chinese auto dealers. The Group, through considering our business strategy and evaluating our growth model and business opportunities, has successfully refined and implemented growth strategies for after-sales service, vigorously expanded the online and offline platform of automobile services, rapidly developed the automobile insurance and financing businesses and continued to optimize capital structure and improve capital efficiency, resulting in stable growth in the Group's revenue and profit. For the six months ended June 30, 2014, the Group recorded revenue of RMB16,285 million, representing an increase of 8.6% compared to the corresponding period last year. The overall gross profit was RMB1,589 million, representing an increase of 8.0% compared to the corresponding period last year. Profits from operations increased by 13.5% to RMB1,036 million. Profit attributable to owners of the parent was approximately RMB547 million, representing an increase of 7.0% comparing to the corresponding period last year. Earnings per share also increased to RMB0.21 (corresponding period in 2013: RMB0.20).

In the first half of 2014, Baoxin continued to strengthen the Group's leading position in the luxury and ultra-luxury automobile market in China through expanding our market share in key strategic brands, strategically building dealership networks, and strengthening the cooperation with core luxury and ultra-luxury OEMs in auto financing and pre-owned vehicle businesses. In June 2014, the Group received its first dealership authorization from Rolls Royce, further expanding the Group's brand coverage in the ultra-luxury sector. Furthermore, the Group established a strategic partnership with BMW Finance, and will together develop auto financing and financial leasing businesses in China.

In the first half of 2014, the Group's brand coverage and geographic network continued to expand. As at June 30, 2014, the Group has a total of 91 stores (established and under construction), including 77 luxury and ultra-luxury brand dealership stores, 9 mid-to-upper brand dealership stores, 2 automobile customization centers, 1 certified collision damage assessment center and 2 after-sales service centers. In the first half of 2014, the Group has 11 4S dealership stores under construction, including 9 4S dealership stores of luxury and ultra-luxury brands and 2 large showrooms.

Chairman's Statement

The sales of luxury and ultra-luxury automobiles accounted for RMB13,813 million, contributing to 94.6% of our total revenue from sales of automobile for the first half of 2014 and representing an increase of 8.7% compared to the corresponding period last year. The revenue from after-sales service for luxury and ultra-luxury brands was RMB1,575 million, representing an increase of 21.9% compared to the corresponding period last year. The Group has consolidated all pre-owned vehicle resources for auction and sale through our online pre-owned vehicle platform. Meanwhile, Baoxin's first flagship pre-owned automobile dealership store will commence business in September 2014. Online and offline pre-owned automobile trade will enhance the average trading price and profitability of our pre-owned vehicle business. During the period, automobile insurance and automobile financing business achieved significant improvement, which generated strong commission income growth. The Group realized RMB95.30 million of commission income from auto insurance business, representing a growth of 35.0% compared to the corresponding period in 2013.

Looking ahead, we will continue to strengthen our relationship with luxury automobile manufacturers, expand our brand coverage and strengthen our strategic cooperation. We will also keep abreast of the development trends by expanding into the third, fourth and fifth tier cities. We will continue to enhance capital investment efficiency through implementing a strict selection process for dealership networks, brands and the location of stores, strict management of capital expenditure and adopting different forms of stores. For the pre-owned automobile business, we will seize the rapidly emerging market and continue to develop the online to offline ("O2O") trading platform. After the establishment of Dingxin Financial Leasing Co., Ltd (鼎信租賃公司) in 2013, we will further develop the automobile finance leasing business rapidly. We will also further develop the online automobile service platform and extend the services for pre-owned automobile trading to after-sales services, the sale of automobile insurance, automobile financial products and accessories. We will also continue to improve capital efficiency in order to optimize capital structure.

We strongly believe that the loyal contribution of all employees and the unwavering support from business partners are our motivation and solid foundation upon which we embrace the challenges ahead and achieve our goals, so that the Group will be able to develop and improve continuously in this complicated and changing industry. I, on behalf of the Board, hereby extend my heartfelt gratitude to each of our shareholders, business partners, customers and employees for their long-term support, trust and encouragement. We are determined to dedicate ourselves and strive to pay back our shareholders with fruitful achievements and strong results.

Yours sincerely,
Yang Aihua
Chairman

Hong Kong, August 18, 2014

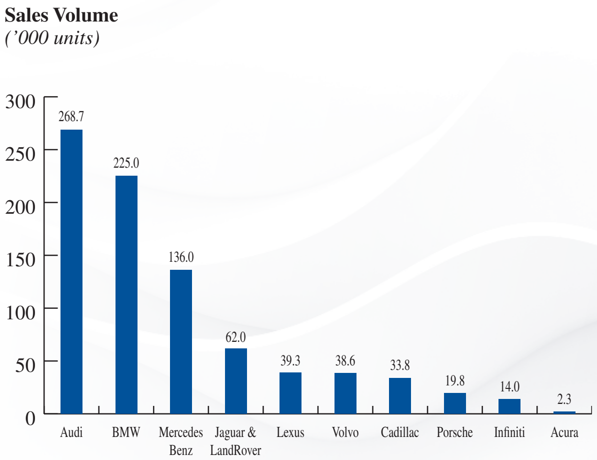
Management Discussion and Analysis

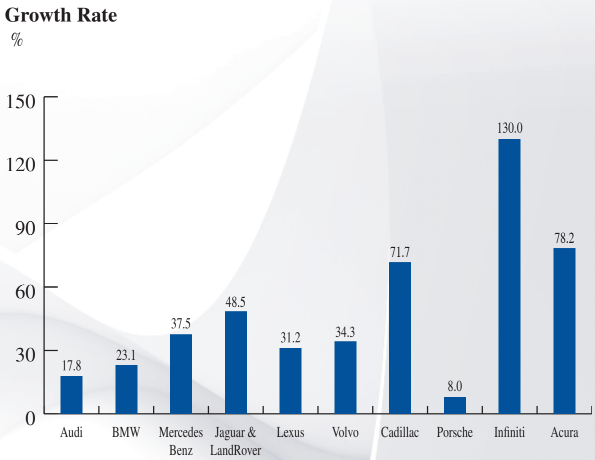
INDUSTRY OVERVIEW

China's macro economy continued to slow down in the first half of 2014, with GDP growth at 7.4%, representing the lowest growth since the global financial crisis in 2008. The focus of China's macro policy has been on structural reform in both the political and economic systems. Fixed asset investment also continued to slow down, and property trading volume and price have weakened. Despite these circumstances, consumption has shown solid growth, contributing to 54% of the GDP growth. In particular, China's automobile industry recorded a stable growth. According to the China Association of Automobile Manufacturers, China's automobile production and sales volume for the first six months of 2014 were 11.8 million units and 11.7 million units respectively, representing year-on-year growths of 9.6% and 8.4% respectively. Passenger vehicle production and sales volume were 9.7 million units and 9.6 million units respectively, representing year-on-year increases of 12.1% and 11.2% respectively. The SUV category continued to deliver strong growth and saw a sales volume of 1.8 million units, or a 37.1% increase in comparison with the same period in 2013.

China's luxury vehicle market sustained a rapid growth in the first half of 2014, representing a 26% increase compared to the same period in 2013[(1)]. The share of luxury automobile in overall passenger vehicle sales volume grew from 7.6% to 8.7% compared to the same period in 2013. Two German luxury automobile brands, namely Audi and BMW, remained the top two best-sellers. Audi recorded sales of 268,700 vehicles, representing a year-on-year growth of 17.8%; and BMW (including Mini) recorded sales of around 225,000 vehicles, representing a year-on-year growth of 23.1%. Jaguar Land Rover showed strong sales performance in the first half of 2014 by selling a total of 62,500 vehicles, representing a 48.2% year-on-year growth. It is expected that Jaguar Land Rover will be domestically manufactured in China by the end of 2014, and will further expand its market share in China's luxury vehicle market. Separately, Lexus, Volvo, Cadillac, Infiniti and Maserati achieved growth rates of over 30%, while Cadillac and Infiniti achieved significant growth rates of 71.7% and 130.0% respectively.

The tables below show the sales volume and sales growth rate of the top 10 luxury brands for the first half of 2014.





(1) Source: Auto manufactures.

Management Discussion and Analysis

According to the National Bureau of Statistics of the PRC, as at the end of 2013, civil car ownership in China reached 126.7 million vehicles, and luxury car penetration rate remains low. To tap the full potential of the Chinese market, luxury car manufacturers have expressed their intention to continue the expansion of their dealership network in China, especially in the less developed central and western regions, as well as Tier 4 and 5 cities. For Tier 1 and 2 cities such as Beijing, Shanghai and Shenzhen, luxury brands have essentially completed their retail lineup, and will adjust their distribution network according to market demands. Other tactics employed by luxury automobile manufacturers in promoting market growth include tailoring their products and services to satisfy the needs of Chinese consumers, such as offering more entry-level, mid-end and SUV models, as well as providing bespoke designs combined with a variety of configuration options and flexible automobile purchase financing schemes.

China's pre-owned vehicle market has been growing steadily since 2009, but is still in a preliminary stage with huge growth potential. According to the China Automobile Dealers Association, in the first half of 2014, China's pre-owned vehicle market recorded cumulative trading volume of 2.8 million units, representing a year-on-year increase of 12.8%, and a ratio of 1:4 between used and new vehicle sales. China's pre-owned vehicle market is highly fragmented, with many small pre-owned vehicle dealers competing in each region. The lack of reliable pre-owned vehicle assessment agencies also affects consumers' confidence in purchasing pre-owned vehicles, as there is no clear benchmark for fair pricing. The absence of auto-financing and vehicle services warranty further limits the development of pre-owned vehicle market.

With continuous growth in new vehicle sales and vehicle parc in recent years, shortening vehicle ownership cycles, as well as further development in automobile leasing and the financial leasing market, it is expected that the supply of pre-owned vehicles will maintain strong growth. In addition, the implementation of vehicle purchase restrictions in Tier 1 and 2 cities is expected to further prompt vehicle owners to sell instead of keeping their old vehicles. From a supply-demand point of view, the demand for pre-owned vehicles will likely continue to grow as the market further matures and consumers' spending attitudes change.

BUSINESS OVERVIEW

Since 2012, both China's macro-economy and the auto industry have been undergoing structural changes, resulting in both challenges and opportunities for the Chinese auto dealers. In this turbulent market, we have reconsidered our business strategy and re-evaluated our growth model and business opportunities. We have also been relentless in improving our management quality and refining our operational structure.

Brand and network development strategies

In the first six months of 2014, we continued to strengthen our leading position in the luxury and ultra-luxury automobile market in China through expanding our market share in key strategic brands, strategically building dealership networks, and deepening our cooperation with core luxury and ultra-luxury OEMs in auto financing and pre-owned vehicle businesses. We continued to be one of the top dealer groups for BMW and Jaguar Land Rover in terms of sales volume, number of dealership stores and network coverage. With the network expansion of Ferrari/Maserati in 2013, we also became one of the largest dealer groups and increased our market share significantly in Ferrari/Maserati in China. In June 2014, we received our first dealership authorization from Rolls Royce, further expanding our brand coverage in the ultra-luxury sector. Furthermore, we established strategic partnership with BMW Finance, and will together develop auto financing and financial leasing businesses in China. With Volvo, we have explored opportunities in online sales of certain new vehicles.

Management Discussion and Analysis

Regarding network expansion, we have continuously improved the efficiency of capital investment by carefully selecting the brand and location of our stores, managing capital expenditure stringently and adopting more variety of store forms. As at June 30, 2014, our sales network, both established and under construction, expanded to 91 stores, consisting of 77 luxury and ultra-luxury brand dealership stores, 9 mid-to-upper brand dealership stores, 2 automobile customization centers, 1 certified collision damage assessment center and 2 after-sales service centers. Out of the 91 stores, there are 11 stores under construction, including 9 luxury and ultra-luxury 4S dealership stores and 2 showrooms. For luxury and ultra-luxury dealership stores, the brands include BMW, MINI, Jaguar Land Rover, Rolls Royce, Porsche, Volvo and Infiniti. We will control the construction progress and launch openings for these stores according to market condition. In addition to constructing new stores, we have also expanded 3 BMW 4S dealership stores from single-brand stores to dual-brand stores which sell both BMW and MINI brands. In addition to stores under construction, the Group held in total 14 authorizations for brands including Ferrari/Maserati, Jaguar Land Rover, Audi, Infiniti, and Volvo in the first half of 2014 and will build up these dealerships in the next two to three years. All the stores under construction and the authorizations are primarily located in Tier 1, 2 and 3 cities, covering both coastal regions as well as central northern and northwestern regions, such as Beijing, Shanghai, Suzhou, Hangzhou, Ningbo, Tianjing, Urumuqi, and Shenzhen.

During the first six months of 2014, we have also terminated the operation of and converted two mid-end 4S dealership stores, including 1 Honda store and 1 Nissan store, all located in prime areas of Shanghai. The Honda store has been converted into Baoxin's first flagship pre-owned car dealership store and launched soft opening on July 28, 2014, and is expected to launch official opening in September 2014. The other store is under modification for luxury and ultra-luxury brands.

Stable growth in sales of luxury and ultra-luxury brand automobiles

After achieving a significant growth in new automobile sales volume in 2013, which was mainly driven by the acquisition and integration of NCGA Holdings Limited and its subsidiaries ("NCGA Group"), our new vehicle sales volume growth in the first six months of 2014 was stable. Our revenue from sales of automobiles for the six months ended June 30, 2014 was RMB14,602.9 million, representing a growth of approximately 7.4% as compared to the same period in 2013. The sales of luxury and ultra-luxury automobile accounted for RMB13,812.6 million, contributing to 94.6% of our total revenue from sales of automobile for the six months ended June 30, 2014 and representing an increase of 8.7% as compared to the same period in 2013.

In terms of sales volume, we sold 36,726 units of automobile in the six months ended June 30, 2014, an increase of 3,078 units, or 9.1%, from 33,648 units of automobile for the same period in 2013. For the six months ended June 30, 2014, we sold 30,585 units of luxury and ultra-luxury automobile, representing an increase of 3,692 units, or 13.7%, from 26,893 units for the same period in 2013.

	Six months ended June 30,			
	2014		2013	
Automobile sales volume	**Volume (units)**	**Contribution (%)**	Volume (units)	Contribution (%)
Luxury and ultra-luxury brands	**30,585**	**83.3**	26,893	79.9
Mid-to-upper market brands	**6,141**	**16.7**	6,755	20.1
Total	**36,726**	**100.0**	33,648	100.0

Management Discussion and Analysis

Strong growth in after-sales service

During the six months ended June 30, 2014, after-sales service business remained one of the key focuses of the Group. Based on the initiatives taken in 2013, we further refined and implemented the growth strategies for after-sales service business in the first half of 2014, and experienced strong rebound as compared to the second half of 2013. For the six months ended June 30, 2014, the revenue from after-sales services reached RMB1,682.1 million, representing an increase of 19.8% as compared to the same period in 2013, and an increase of 29.5% from second half of 2013, representing 10.3% of the total revenue. The revenue from after-sales services for luxury and ultra-luxury brands was RMB1,575.4 million, representing an increase of 21.9% from RMB1,292.1 million from the same period in 2013, and contributed to 93.7% of the total after-sales revenue. For the revenue growth of 21.9% in after-sales services for luxury and ultra-luxury brands, 12.5% was driven by growth in volume of after-sales visits and 9.4% was driven by a rise in average price per visit. The visit volume growth was contributed by stable new vehicles sales volume, improved retention rate of existing customers (especially post warranty vehicles), as well as increased accident car referrals from insurance companies. The increase in average price per visit was primarily due to the increasing share of luxury and ultra-luxury brands in after-sales service, in particular a higher percentage for repairs rather than maintenance. While after-sales revenue experienced strong growth, gross profit margin remained stable at 47.8%.

O2O platform potentially to become a new growth driver

In addition to the traditional new automobile dealing business and after-sales service business, the Group has made significant achievements in building an O2O platform, which currently consists of online and offline pre-owned vehicle trading as well as online new vehicle sales, and the platform will potentially expand into a full-fledged auto service platform to serve as a one-stop service provider for automobile customers.

We see a significant opportunity in China's pre-owned vehicle market and also believe that pre-owned automobile business fits the O2O business model. Since October 2013, we have developed an online bidding system for pre-owned vehicles. Since then, we have consolidated all pre-owned vehicle resources (including trade-in vehicles and retired test-driving vehicles) through our online pre-owned vehicle platform. The platform has improved the average trading price and profitability of our pre-owned vehicle business.

On July 28, 2014, our first flagship pre-owned vehicle store launched soft opening in Shanghai. The store integrates a large showroom showcasing high quality (including certified) pre-owned vehicles, online and offline auction facilities, repair and modification facilities, and first-class customer rest area. The store will officially commence operation in September 2014. As at the date of this report, we have been discussing with a large Chinese commercial bank on the strategic partnership for the O2O business. As a leading bank in consumer financing and with one of the largest high net worth VIP customer bases, this bank will collaborate with the Group in providing pre-owned car financing. Meanwhile, the Group is also in close discussion with a leading US-based pre-owned auto auction company regarding entering into a strategic partnership for the O2O business.

Auto insurance and financing businesses

During the six months ended June 30, 2014, we achieved significant improvement in auto insurance and auto financing businesses, which generated strong commission income growth, despite slower growth in new vehicle sales volume.

Management Discussion and Analysis

For the six months ended June 30, 2014, the Group realized RMB95.3 million of commission income from auto insurance business, representing a 35.0% growth from the same period in 2013. The growth was driven by stable new car sales volume growth, and a rapid growth in extended auto insurance for existing customers. Extended auto insurance ratio improved across all stores. As at the end of June 30, 2014, 44% of our 4S stores' new vehicle insurance penetration ratio was above 75%, and 42% of our 4S stores' extended auto insurance ratio was above 75%. There is still significant room for improvement in the insurance segment.

Auto financing

We have established a project team consisting of members from the banking sector to manage our financial business for products, channels, marketing, incentives and other systems. Our team formulated a detailed tactical plan in early 2014, which has been implemented and has generated considerable financial commission income to the Group.

Our financial leasing business has been developing rapidly. We designed and built an online operating system that has greatly improved our business processing capabilities. Shanghai Dingxin Financial Leasing Co., Ltd ("Dingxin Leasing"), a wholly owned subsidiary of the Company, set up 19 branches by the end of June 2014 by leveraging on the Group's expansive network of outlets. We have also completed preliminary construction of our sales network, and the current business deals have resulted in considerable internal rate of return yields.

Dingxin Leasing has obtained accreditation from BMW Finance and will become a key supplier and partner of BMW Finance, with a view to promoting BMW's financial leasing services across China. This collaboration with BMW represents vast business opportunities for the Group's leasing services. The Group's management standard is also expected to be improved with BMW Finance's support.

Further integration of NCGA Group to release operational synergy and reduce operating cost

During the six months ended June 30, 2014, we further integrated NCGA Group and reduced operating costs, especially staff salaries and benefits, marketing and advertising expenses, property rental expenses and other general operating expenses. After a one-year transition period, we have evaluated the salary and welfare structure at NCGA Group and adjusted it to market level. We have also consolidated inventory warehouses and terminated certain warehouse facilities to reduce rental expenses. Through terminating and streamlining third party contracts for marketing and operational services, we were able to further reduce corresponding expenses.

Continue to optimize capital structure and improve capital efficiency

During the first six months of 2014, the Group continued to improve capital efficiency and optimize capital structure.

In September 2013, the Group successfully entered into a syndicated loan of US$170 million in Hong Kong and cooperated with Standard Chartered Bank to launch the first two-way trade in RMB capital pool business in Shanghai Free Trade Zone. Standard Chartered Bank has now successfully launched the RMB capital pool business, which improved the Group's capital utilization, reduced its financial costs and also limited our debt scale.

Management Discussion and Analysis

In August 2014 and as at the date of this report, the Group has further completed a US$216 million syndicate loan in Hong Kong, with a three-year term and interest rate at Libor+3.7%, which is considerably lower than on-shore funding costs.

Our treasury department has formulated a tiered pricing mechanism to regulate, control and optimize the use of funds at all levels of the Company. This system has largely increased the efficiency of the management performance assessment procedure, and is gradually refining the management system to reduce inefficient use or allocation of funding.

Through effective fund management, we have exercised strict control over the ratio of commercial bank notes at our outlets. By regularly monitoring the ratio of notes at each outlet, we have effectively reduced the size of cash pledged to banks as security deposits, and have thus effectively controlled the Group's financial gearing and debt level while expanding the business.

By adjusting our financing structure and gradually replacing the secured financing with credit guarantee financing, our ability in resisting financial risks has also been strengthened. As at June 30, 2014, 32.8% of the Group's debt was mid-long term debt, compared to 20.8% as at December 31, 2013.

FINANCIAL REVIEW

Revenue

For the six months ended June 30, 2014, our revenue was RMB16,285.0 million, representing a growth of approximately 8.6% compared to the same period in 2013. The increase was primarily due to an increase of RMB1,005.3 million, or 7.4%, 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 periods indicated.

	Unaudited For six months ended June 30, 2014		Unaudited For six months ended June 30, 2013	
Revenue Source	**Revenue (RMB'000)**	**Contribution (%)**	Revenue (RMB'000)	Contribution (%)
Automobile sales	**14,602,903**	**89.7**	13,597,645	90.6
After-sales business	**1,682,119**	**10.3**	1,404,232	9.4
Total	**16,285,022**	**100.0**	15,001,877	100.0

Revenue from the sales of automobiles increased by RMB1,005.3 million due to continued sales growth at our more mature stores.

Management Discussion and Analysis

Automobile sales generated a substantial portion of our revenue, accounting for 89.7% of our revenue for the six months ended June 30, 2014. Revenue generated from the sales of luxury and ultra-luxury brands and our mid-to-upper market brands accounted for approximately 94.6% (six months ended June 30, 2013: 93.4%) and 5.4% (six months ended June 30, 2013: 6.6%), respectively, of our revenue from the sales of automobiles.

Revenue from our after-sales business increased by 19.8%, from RMB1,404.2 million for the six months ended June 30, 2013 to RMB1,682.1 million for the same period in 2014. The Group continues to focus on, and is strengthening the management of, its after-sales service business. The increase in revenue from after-sales services was attributable to the Group's pro-active measures to increase our stores' after-sales capacity. For the mature stores, we have been adding repair and maintenance workshops, boosting utilization rates, and optimizing operation procedures in order to generate higher after-sales revenue. For the less mature stores, we achieved an increase in revenue by attracting more customers through implementing the membership system, encouraging return visits by customers, and launching promotion campaigns at our stores. All these have attributed to the significant revenue growth from after-sales services. The relative contribution of our after-sales business to our revenue increased from 9.4% for the six months ended June 30, 2013 to 10.3% for the same period in 2014.

Cost of sales and services

For the six months ended June 30, 2014, our cost of sales and services increased by 8.6%, from RMB13,531.2 million for the same period in 2013 to RMB14,696.5 million. This increase is consistent with the growth in our sales throughout the six months ended June 30, 2014.

The cost of sales and services attributable to our automobile sales business amounted to RMB13,818.5 million for the six months ended June 30, 2014, representing an increase of RMB1,019.2 million, or 8.0%, from the same period in 2013. The cost of sales attributable to our after-sales business amounted to RMB878.0 million for the six months ended June 30, 2014, representing an increase of RMB146.1 million, or 20.0%, from the same period in 2013.

Gross profit and gross profit margin

Gross profit for the six months ended June 30, 2014 was RMB1,588.6 million, representing an increase of RMB117.9 million, or 8.0%, from the same period in 2013. Gross profit from automobile sales decreased by 1.7% from RMB798.3 million for the six months ended June 30, 2013 to RMB784.4 million for the same period in 2014, of which RMB772.0 million were from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business increased by 19.6% from RMB672.4 million for the six months ended June 30, 2013 to RMB804.1 million for the same period in 2014. Automobile sales and after-sales business contributed to 49.4% and 50.6%, respectively, to the total gross profit for the six months ended June 30, 2014.

Gross profit margin for the six months ended June 30, 2014 was 9.8%, same as that of the same period in 2013, of which the gross profit margin of automobile sales was 5.4% compared to 5.9% of the same period in 2013, and after-sales business was 47.8% compared to 47.9% of the same period in 2013. The decrease in gross profit from sales of automobiles was mainly due to a decrease in the sales price as a result of more intense market competition. Gross profit from after-sales services remained stable over the period.

Management Discussion and Analysis

Other income and net gains

Other income and net gains increased by 19.2%, from RMB169.3 million for the six months ended June 30, 2013 to RMB201.8 million for the same period in 2014, mainly due to an increase in the service fee income and commission income from RMB122.2 million for the six months ended June 30, 2013 to RMB170.6 million for the same period of 2014. Our commission income increased mainly due to (i) the Group benefitting from the organized management of our auto insurance business, and our cooperation with insurance companies which led to continuous and significant improvements in our insurance commission; (ii) a stable increase in revenue from pre-owned automobile sales and license registration services; and (iii) higher income from automobile financing as automobile sales increase, and related financing services being more widely used by automobile purchasers.

Profit from operations

As a result of the foregoing, our profit from operations for the six months ended June 30, 2014 increased by 13.5% from RMB912.4 million in the same period in 2013 to RMB1,035.8 million.

Profit for the period

As a result of the cumulative effect of the foregoing, our profit for the six months ended June 30, 2014 increased by 7.7% from RMB519.8 million in the same period last year to RMB559.9 million.

Taxation

Income tax expense increased by 34.9% from RMB158.6 million for the six months ended June 30, 2013 to RMB193.6 million for the same period in 2014. Our effective tax rate increased from 23.4% for the six months ended June 30, 2013 to 25.7% for the same period of 2014. The increase in income tax expense is in line with the growth of profit before tax.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at June 30, 2014, our cash and cash equivalents amounted to RMB1,574.0 million, representing a decrease of 22.1% from RMB2,020.9 million as at December 31, 2013.

Our primary uses of cash were to pay the costs 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 six months ended June 30, 2014, net cash generated from operating activities, net cash used in investing activities, and net cash used in financing activities were RMB330.6 million (six months ended June 30, 2013: RMB45.9 million), RMB599.5 million (six months ended June 30, 2013: RMB451.6 million), and RMB178.8 million (six months ended June 30, 2013: RMB244.3 million of net cash generated from financing activities), respectively.

Management Discussion and Analysis

Net current assets

As at June 30, 2014, we had net current assets of RMB2,097.6 million, representing an increase of RMB731.8 million from RMB1,365.8 million as at December 31, 2013.

Capital expenditure

Our capital expenditures primarily comprise expenditures on property, plant and equipment, land use rights and intangible assets as well as purchase of test-driving vehicles. During the six months ended June 30, 2014, our total capital expenditure was RMB551.9 million (six months ended June 30, 2013: RMB524.1 million).

Inventory

Our inventory primarily consisted of new automobiles, spare parts and accessories. Each of our dealership stores individually manages their orders for new automobiles and after-sales products. We coordinated and aggregated orders for automobile accessories and other automobile-related products across our dealership network.

Our inventory increased by 31.0% from RMB3,002.3 million as at December 31, 2013 to RMB3,932.8 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 the end of June 2014 to be relatively higher as compared to the end of 2013; and (iii) the three newly opened stores for ultra-luxury brands Ferrari and Maserati in late 2013, resulting a further increase in inventory.

Our average inventory turnover days in the six months ended June 30, 2014 increased to 43.2 days from 35.9 days as compared to the same period in 2013 primarily due to an increase in inventory at the end of June 2014.

Bank loans and other borrowings

As at June 30, 2014, the Group's available and unutilized banking facilities amounted to approximately RMB6,188.3 million (December 31, 2013: RMB6,134.4 million).

Our bank loans and other borrowings as at June 30, 2014 were RMB7,189.7 million, an increase of RMB167.9 million from RMB7,021.8 million as at December 31, 2013. The increase was mainly due to (i) our capital expenditures on stores in built; 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$ or HK$ as their functional currencies.

The Group did not have any material foreign currency transactions in Mainland China for the six months ended June 30, 2014. The Group had minimal exposure to foreign currency risk. We did not use any derivative financial instruments to hedge our exposure to the foreign exchange rate risk during the six months ended June 30, 2014.

Management Discussion and Analysis

Gearing ratio

Our gearing ratio (as defined as net debt divided by equity attributable to owners of the Company plus net debt) for the six months ended June 30, 2014 was 70.1% (December 31, 2013: 69.1%).

Human resources

As at June 30, 2014, the Group had approximately 6,949 employees (December 31, 2013: 6,646). Total staff costs for the six months ended June 30, 2014, excluding Directors' remuneration were approximately RMB287.6 million (six months ended June 30, 2013: RMB238.4 million).

The Group values the recruitment and training of quality personnel. From time to time, we offer professional skills and marketing training to our employees. We also 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 and December 31, 2013, the Group had no significant contingent liabilities.

Pledge of the Group's assets

Our Group has pledged our group assets, shares in certain subsidiaries and letters of credit as securities for bank loans and other borrowings and bills payable which were used to finance daily business operation and acquisition. As at June 30, 2014, the pledged group assets amounted to approximately RMB5,164.8 million (December 31, 2013: RMB4,716.5 million); the pledged letters of credit with aggregate credit amount of approximately RMB613.0 million (December 31, 2013: RMB613.0 million) and pledged entire shares in Shanghai Baoxin Automobile Sales & Services Co., Ltd..

Changes since December 31, 2013

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended December 31, 2013.

FUTURE OUTLOOK AND STRATEGY

We will continue to refine and implement our business strategy and seek growth opportunities through disciplined investments. We will also continue to deepen our strategic partnership with OEMs in areas of auto financing, pre-owned vehicles, training of employees and marketing. We remain committed to expanding our after-sales business through network expansion, service quality improvement, and thereby improving customer retention rate. We are also building an auto financing and insurance business, aiming to raise financing penetration rate and insurance retention rate, and offering more auto financing and auto warranty products.

With regard to our pre-owned vehicle business, based on the current platform, we expect to form more business liaisons with leading internet companies, large dealership groups and other pre-owned vehicle dealers. We will further develop our online platform, refine our operating systems and develop our pre-owned vehicle network to 10 flagship stores around China in Tier 1 and 2 cities.

Corporate Governance and Other Information

CHANGES IN DIRECTORSHIP

With effect from January 23, 2014, Mr. Zhang Yang (張揚) resigned as a non-executive Director of the Company.

With effect from March 31, 2014, Mr. Lu Linkui (陸林奎) was appointed as a non-executive Director of the Company.

Mr. Lu Linkui ("Mr. Lu") joined the predecessor of FAW (First Automobile Works) Group Corporation ("FAW") in April 1970 and served various roles such as technician, deputy section chief, section chief, deputy director and later director of the quality control department. In May 1985 and November 1991, he assumed the positions of assistant factory manager and executive assistant factory manager respectively; and later became the deputy general manager of FAW. From January 1996 to December 2001, Mr. Lu was the director and general manager of FAW-Volkswagen Automotive Co., Ltd. In June 2002, he was engaged by Volkswagen and received management training, following which he assumed the position as general manager of Volkswagen Transmission (Shanghai) Co., Ltd from January 2003 to October 2008. Mr. Lu retired from Volkswagen in November 2008. Mr. Lu graduated from Beijing Mechanics College with a bachelor's degree in mechanics in 1968.

Mr. Lu has not entered into any service contracts with the Company and has no fixed terms of service with the Company. Mr. Lu is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company. Mr. Lu is entitled to receive a remuneration of HK$300,000 per annum, which is determined by reference to his duties and responsibilities and the prevailing market conditions. Mr. Lu is not connected with any Directors, senior management or substantial or controlling shareholder (as defined in the Listing Rules) of the Company. Mr. Lu does not have any interest in the shares of the Company which is required to be disclosed under Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). Mr. Lu does not hold any other positions in the Company and its subsidiaries, and has not been a director in any other publicly listed companies in the past three years prior to his appointment date. Save as disclosed above, there is no other information to be disclosed pursuant to the requirements under Rules 13.51(2)(h) to (v) of the Listing Rules in relation to Mr. Lu's appointment as a non-executive Director of the Company.

The last annual general meeting of the Company was held on June 18, 2014 (the "Annual General Meeting"). By virtue of article 16.18 of the articles of association of the Company, at least one third of the Directors shall retire and being eligible, offer themselves for re-election at each annual general meeting. All of the Directors of the Company were re-elected at the Annual General Meeting.

Save as disclosed above, there are no other matters in relation to the directorship of the Company that need to be brought to the attention of the shareholders of the Company.

Corporate Governance and Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2014, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Nature of interest	Number of shares or underlying shares[1]	Approximate percentage of shareholding interest
Mr. Yang Aihua[2]	Beneficial owner	1,819,200,000(L)	71.13%
Mr. Yang Hansong[3]	Beneficial owner	1,552,780,000(L)	60.71%
Mr. Yang Zehua[4]	Beneficial owner	1,819,200,000(L)	71.13%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) Mr. Yang Aihua is one of the beneficiaries of the Family Trust and the Yang Trust and is deemed to be interested in the shares held by Baoxin Investment Management Ltd. ("Baoxin Investment") and Auspicious Splendid Global Investments Limited ("Auspicious Splendid").

(3) Mr. Yang Hansong is one of the beneficiaries of the Family Trust and is deemed to be interested in the shares held by Baoxin Investment.

(4) Mr. Yang Zehua is one of the beneficiaries of the Family Trust and the Yang Trust and is deemed to be interested in the shares held by Baoxin Investment and Auspicious Splendid.

Save as disclosed above, as at June 30, 2014, none of the Directors and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Apart from the Share Option Scheme (as defined in the subsection "Share Option Scheme" below), during the six months ended June 30, 2014, the Company and any of its subsidiaries were not a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Save for those disclosed above, during the six months ended June 30, 2014, none of the Directors (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Corporate Governance and Other Information

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF THE SHAREHOLDERS UNDER THE SFO

As at June 30, 2014, the interests or short positions of substantial shareholders, other than the Directors or the chief executives of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	Number of shares[1]	Approximate percentage of shareholding interest
Baoxin Investment Management Ltd.[2]	Beneficial owner	1,552,780,000(L)	60.71%
Sunny Sky Limited[2][3]	Interest in controlled corporation	1,552,780,000(L)	60.71%
Credit Suisse Trust Limited[3]	Trustee	1,552,780,000(L)	60.71%
Brock Nominees Limited	Interest in controlled corporation	1,552,780,000(L)	60.71%
Tenby Nominees Limited	Interest in controlled corporation	1,552,780,000(L)	60.71%
Auspicious Splendid Global Investments Limited	Beneficial owner	266,420,000(L)	10.41%
Ms. Yang Chu Yu[4]	Trustee	266,420,000(L)	10.41%
Schroders Plc	Investment manager	153,140,053(L)	5.98%
The Capital Group Companies, Inc.	Interest in controlled corporation	128,727,500(L)	5.03%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) Sunny Sky Limited is deemed to be interested in the shares as the legal owner of the entire issued share capital of Baoxin Investment.

(3) Sunny Sky Limited is controlled by Credit Suisse Trust Limited which is the trustee of the Family Trust.

(4) Ms. Yang Chu Yu is deemed to be interested in the shares as the legal owner of the entire issued share capital of Auspicious Splendid as the trustee pursuant to the trust deed in respect of the Yang Trust dated July 12, 2011.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company as at June 30, 2014.

Corporate Governance and Other Information

NON-COMPETITION UNDERTAKING

Reference is made to our prospectus dated December 2, 2011. Each of our controlling shareholders, namely Baoxin Investment, Auspicious Splendid, and Mr. Yang Aihua (the "Controlling Shareholders", and each, a "Controlling Shareholder") has entered into a Deed of Non-Competition (the "Deed of Non-Competition") in favor of us, pursuant to which each of the Controlling Shareholders has undertaken to us (for itself and for the benefit of its subsidiaries) that it would not and would use its best endeavours to procure that its associates (except any members of our Group) would not, directly or indirectly, or as principal or agent either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the business of any members of our Group from time to time (the "Restricted Business"). There has been no change to the terms of the Deed of Non-Competition since its signing.

Each of our Controlling Shareholders has complied with the Deed of Non-Competition from the date of the listing to the end of the six months ended June 30, 2014. The Controlling Shareholders have confirmed to the Board that, from the date of the listing to the end of the six months ended June 30, 2014, (i) the Controlling Shareholders and their respective associates (as defined under the Listing Rules) do not, directly or indirectly, carry on or hold any right or interest in or render any services to, or is otherwise involved in, any business which is in competition with the business of any members of our Group; (ii) where there are any opportunities to invest or otherwise participate in any Restricted Business, the Controlling Shareholders have informed the Board and offered such opportunities to the Company; and (iii) any investment or participation in any Restricted Business has been made or done through members of our Group.

The Directors (including independent non-executive Directors) have discussed with the Controlling Shareholders or their representatives on the Board on, and reviewed, the opportunities to invest or participate in Restricted Businesses, and are satisfied that the Controlling Shareholders have complied with the Deed of Non-Competition from the date of the listing to the end of the six months ended June 30, 2014.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles set out in the Corporate Governance Code ("CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In the opinion of the Directors, throughout the six months ended June 30, 2014, the Company has complied with all the code provisions set out in the CG Code, save and except for code provision A.2.1.

Under the code provision A.2.1, the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Our chairman, Mr. Yang Aihua, is responsible for the operation and management of the Board, whilst our vice-chairman and chief executive officer, Mr. Yang Hansong, is responsible for the business operations of the Company. The Board considers that the respective responsibilities of the chairman and chief executive officer are clear and distinctive and therefore written terms thereof are not necessary.

Corporate Governance and Other Information

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted 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 six months ended June 30, 2014.

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.

AUDIT COMMITTEE

Pursuant to the requirement of the CG Code and the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising Mr. Diao Jianshen (chairman), Mr. Wang Keyi and Mr. Chan Wan Tsun Adrian Alan, all of whom are the Company's independent non-executive Directors.

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 2014 interim report and the unaudited condensed consolidated interim financial results of the Group for the six months ended June 30, 2014.

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

Neither the Company nor any of its subsidiaries purchased, redeemed, or sold any of the Company's listed securities during the six months ended June 30, 2014 and at or before the date of this report.

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

Neither the Company, nor any of its subsidiaries held any significant investment, or entered into any significant acquisition of disposal during the six months ended June 30, 2014.

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil).

Corporate Governance and Other Information

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

During the six months ended June 30, 2014, 2,000,000 share options to subscribe for the ordinary shares of the Company were granted under the Share Option Scheme. Movements in the outstanding share options granted under the Share Option Scheme at the end of the six months ended June 30, 2014 are set out below.

Date of grant	Exercise price	Closing share price at date of grant	Closing share price immediately before date of grant	Cancelled/ Lapsed during the period	Number of share options granted	Vesting period	Exercisable period
January 10, 2014	HK$6.79	HK$6.74	HK$6.74	–	2,000,000	All share options shall vest on a one-off basis on January 11, 2015	Any share options accepted but not exercised shall automatically lapse on January 10, 2017, or when the relevant grantee ceases to be an employee of the Group
April 22, 2013	HK$6.83	HK$6.83	HK$7.01	–	13,150,000	All share options shall vest on a one-off basis on April 23, 2014.	Any share options accepted but not exercised shall automatically lapse on April 22, 2016, or when the relevant grantee ceases to be an employee of the Group

No share option was exercised during the six months ended June 30, 2014 and as at both the beginning and the end of the six months ended June 30, 2014, the Company had 15,150,000 share options outstanding under the abovementioned share option schemes.

All of the grantees are employees of the Company and its subsidiaries, and none of the grantees is a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company, nor an associate of any of them (as defined in the Listing Rules). The Share Options are subject to acceptance by the grantees. A summary of the terms of the Share Option Scheme is set out in the prospectus of the Company.

DISCLOSURE OF INFORMATION OF DIRECTOR UNDER RULES 13.51(2) AND 13.51(B)(1) OF THE LISTING RULES

There is no change in the information of each Director that is required to be disclosed under Rules 13.51(2) and 13.51(B) (1) of the Listing Rules since the publication of the 2013 annual report of the Company.

Consolidated Interim Statement of Profit or Loss

For the six months ended June 30, 2014

	Notes	**Unaudited For the six months ended June 30, 2014 RMB'000**	Unaudited For the six months ended June 30, 2013 RMB'000
REVENUE	4(a)	**16,285,022**	15,001,877
Cost of sales and services provided	5(b)	**(14,696,471)**	(13,531,195)
Gross profit		**1,588,551**	1,470,682
Other income and gains, net	4(b)	**201,772**	169,274
Selling and distribution costs		**(440,498)**	(436,995)
Administrative expenses		**(314,043)**	(290,548)
Profit from operations		**1,035,782**	912,413
Finance costs	6	**(285,684)**	(238,455)
Share of profit of a joint venture		**3,392**	4,522
Profit before tax	5	**753,490**	678,480
Income tax expense	7	**(193,562)**	(158,639)
Profit for the period		**559,928**	519,841
Attributable to:			
Owners of the parent		**547,074**	511,282
Non-controlling interests		**12,854**	8,559
		559,928	519,841
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted			
— For profit for the period (RMB)	9	**0.21**	0.20

Consolidated Interim Statement of Comprehensive Income

For the six months ended June 30, 2014

	Unaudited For the six months ended June 30, 2014 RMB'000	Unaudited For the six months ended June 30, 2013 RMB'000
Profit for the period	**559,928**	519,841
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(7,825)**	9,936
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(7,825)**	9,936
Other comprehensive income for the period, net of tax	**(7,825)**	9,936
Total comprehensive income for the period	**552,103**	529,777
Attributable to:		
Owners of the parent	**539,249**	521,218
Non-controlling interests	**12,854**	8,559
	552,103	529,777

Consolidated Interim Statement of Financial Position

June 30, 2014

	Notes	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,702,794**	3,310,388
Prepaid land lease payment		**370,488**	375,619
Intangible assets		**943,711**	943,206
Prepayments		**445,415**	402,960
Goodwill		**100,023**	75,674
Investment in a joint venture		**41,625**	38,233
Available-for-sale investment		**16,676**	16,518
Deferred tax assets		**75,170**	59,219
Total non-current assets		**5,695,902**	5,221,817
CURRENT ASSETS			
Inventories	10	**3,932,791**	3,002,286
Trade receivables	11	**476,244**	556,939
Prepayments, deposits and other receivables		**5,525,775**	4,168,968
Amounts due from related parties	20(b)	**40,835**	41,188
Pledged bank deposits		**1,832,124**	2,769,886
Cash in transit		**76,253**	89,716
Cash and cash equivalents		**1,574,039**	2,020,926
Total current assets		**13,458,061**	12,649,909
CURRENT LIABILITIES			
Bank loans and other borrowings	12	**5,094,568**	5,857,684
Trade and bills payables	13	**4,840,882**	4,364,349
Other payables and accruals		**667,889**	722,036
Income tax payable		**452,595**	340,055
Dividends payable		**304,480**	–
Total current liabilities		**11,360,414**	11,284,124
Net current assets		**2,097,647**	1,365,785
Total assets less current liabilities		**7,793,549**	6,587,602
NON-CURRENT LIABILITIES			
Bank loans	12	**2,095,146**	1,164,144
Bonds	14	**388,174**	374,632
Deferred tax liabilities		**330,162**	325,561
Total non-current liabilities		**2,813,482**	1,864,337
Net assets		**4,980,067**	4,723,265

Consolidated Interim Statement of Financial Position

June 30, 2014

	Notes	**Unaudited June 30, 2014 RMB'000**	Audited December 31, 2013 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	**20,836**	20,836
Reserves		**4,893,228**	4,345,395
Proposed final dividend		**–**	303,885
		4,914,064	4,670,116
Non-controlling interests		**66,003**	53,149
Total equity		**4,980,067**	4,723,265

Consolidated Interim Statement of Changes in Equity

For the six months ended June 30, 2014

	Attributable to owners of the parent										
	Share capital RMB'000	Share premium RMB'000	Share awards and option reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2013	**20,836**	**2,172,257**	**–**	**187,491**	**(22,044)**	**(9,713)**	**1,317,493**	**207,321**	**3,873,641**	**61,010**	**3,934,651**
Profit for the period	–	–	–	–	–	–	511,282	–	511,282	8,559	519,841
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	–	–	–	–	–	9,936	–	–	9,936	–	9,936
Total comprehensive income for the period	–	–	–	–	–	9,936	511,282	–	521,218	8,559	529,777
Equity-settled share-based transactions	–	–	4,430	–	–	–	–	–	4,430	–	4,430
Final 2012 dividend declared	–	–	–	–	–	–	–	(207,321)	(207,321)	–	(207,321)
At June 30, 2013 (unaudited)	**20,836**	**2,172,257**	**4,430**	**187,491**	**(22,044)**	**223**	**1,828,775**	**–**	**4,191,968**	**69,569**	**4,261,537**
At January 1, 2014	**20,836**	**1,868,372**	**15,925**	**271,303**	**(58,327)**	**7,636**	**2,240,486**	**303,885**	**4,670,116**	**53,149**	**4,723,265**
Profit for the period	–	–	–	–	–	–	547,074	–	547,074	12,854	559,928
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	–	–	–	–	–	(7,825)	–	–	(7,825)	–	(7,825)
Total comprehensive income for the period	–	–	–	–	–	(7,825)	547,074	–	539,249	12,854	552,103
Equity-settled share-based transactions	–	–	8,584	–	–	–	–	–	8,584	–	8,584
Final 2013 dividend declared	–	–	–	–	–	–	–	(303,885)	(303,885)	–	(303,885)
At June 30, 2014 (unaudited)	**20,836**	**1,868,372**	**24,509**	**271,303**	**(58,327)**	**(189)**	**2,787,560**	**–**	**4,914,064**	**66,003**	**4,980,067**

Consolidated Interim Statement of Cash Flows

For the six months ended June 30, 2014

	Notes	**Unaudited For the six months ended June 30, 2014 RMB'000**	Unaudited For the six months ended June 30, 2013 RMB'000
Operating activities			
Profit before tax		**753,490**	678,480
Adjustments for:			
Share of profit of a joint venture		**(3,392)**	(4,522)
Depreciation of property, plant and equipment	5(c)	**145,686**	98,958
Recognition of prepaid land lease payments	5(c)	**3,116**	2,714
Amortisation of intangible assets	5(c)	**19,904**	24,024
Gain on disposal of a subsidiary	4(b)	**–**	(2,212)
Interest income	4(b)	**(15,984)**	(17,109)
Net loss on disposal of items of property, plant and equipment	4(b)	**67**	1,915
Finance costs	6	**285,684**	238,455
Equity-settled share option expense	5(a)	**8,584**	4,430
		1,197,155	1,025,133
Decrease in pledged bank deposits		**973,610**	347,339
Decrease/(increase) in cash in transit		**13,763**	(13,378)
Decrease in trade and bills receivables		**87,205**	566,856
Increase in prepayments, deposits and other receivables		**(1,238,239)**	(524,091)
Increase in inventories		**(903,918)**	(966,127)
Increase/(decrease) in trade and bills payables		**419,757**	(55,429)
Decrease in other payables and accruals		**(121,233)**	(314,343)
Cash generated from operations		**428,100**	65,960
Income tax paid		**(97,468)**	(20,019)
Net cash generated from operating activities		**330,632**	45,941

Consolidated Interim Statement of Cash Flows

For the six months ended June 30, 2014

	Note	Unaudited For the six months ended June 30, 2014 RMB'000	Unaudited For the six months ended June 30, 2013 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(554,772)**	(528,580)
Proceeds from disposal of items of property, plant and equipment		**33,741**	95,194
Prepaid land lease payment		**(27,738)**	(31,027)
Purchase of intangible assets		**(2,674)**	(64)
Acquisition of a subsidiary net of cash paid	17	**(63,995)**	–
Disposal of a subsidiary		**–**	(1,596)
Interest received		**15,984**	14,469
Net cash used in investing activities		**(599,454)**	(451,604)
Financing activities			
Proceeds from bank loans and other borrowings		**6,189,848**	6,658,569
Repayment of bank loans and other borrowings		**(6,066,560)**	(6,192,447)
Advances from the Controlling Shareholder, net		**–**	377
Interest paid		**(302,112)**	(222,227)
Net cash (used in)/generated from financing activities		**(178,824)**	244,272
Net decrease in cash and cash equivalents		**(447,646)**	(161,391)
Cash and cash equivalents at the beginning of each period		**2,020,926**	2,668,169
Effect of foreign exchange rate changes, net		**759**	394
Cash and cash equivalents at the end of each period		**1,574,039**	2,507,172

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on September 6, 2010. The registered office of the Company is located at P.O. 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 on December 14, 2011.

During the period, the Group was principally engaged in the sale and service of motor vehicles.

In the opinion of the Directors, the ultimate holding company of the Company is Baoxin Investment Management Ltd., which was incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The condensed consolidated interim financial statements for the six months ended June 30, 2014 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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 were approved for issue on August 18, 2014. These condensed consolidated interim financial statements have not been audited.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the new standards and interpretations as of 1 January 2014, noted below.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

2.2 Significant accounting policies *(Continued)*

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	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 Disclosures 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 these revised HKFRSs has had no significant financial effect on the interim condensed consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

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

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

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.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

3. SEGMENT INFORMATION

The Group is principally engaged in the sale and service of motor vehicles. For management purposes, the Group operates in single business unit based on its products, and has one reportable segment which includes 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 nearly all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and nearly all of the Group's non-current assets other than deferred tax assets were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

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 six months ended June 30, 2014, no major customers segment information is presented in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS, NET

	Unaudited For the six months ended June 30, 2014 RMB'000	Unaudited For the six months ended June 30, 2013 RMB'000
(a) Revenue		
Revenue from the sale of motor vehicles	**14,602,903**	13,597,645
Others	**1,682,119**	1,404,232
	16,285,022	15,001,877
(b) Other income and gains, net		
Commission income	**170,566**	122,151
Advertisement support received from motor vehicle manufacturers	**3,185**	5,771
Rental income	**3,807**	537
Government grants	**3,571**	1,688
Interest income	**15,984**	17,109
Net loss on disposal of items of property, plant and equipment	**(67)**	(1,915)
Foreign exchange gain	**–**	13,749
Gains on disposal of a subsidiary	**–**	2,212
Others	**4,726**	7,972
	201,772	169,274

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

5. PROFIT BEFORE TAX

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

	Unaudited For the six months ended June 30, 2014 RMB'000	Unaudited For the six months ended June 30, 2013 RMB'000
(a) Employee benefit expense (including Directors' remuneration)		
Wages and salaries	**190,983**	164,189
Other welfare	**92,932**	75,033
Equity-settled share option expense	**8,584**	4,430
	292,499	243,652
(b) Cost of sales and services		
Cost of sales of motor vehicles	**13,818,541**	12,799,338
Others	**877,930**	731,857
	14,696,471	13,531,195
(c) Other items		
Depreciation of items of property, plant and equipment	**145,686**	98,958
Recognition of prepaid land lease payments	**3,116**	2,714
Amortisation of intangible assets	**19,904**	24,024
Advertisement and business promotion expenses	**76,921**	94,915
Bank charges	**29,619**	41,160
Lease expenses	**74,715**	84,529
Logistics and gasoline expenses	**40,757**	29,120
Office expenses	**11,557**	11,131

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

6. FINANCE COSTS

	Unaudited For the six months ended June 30, 2014 RMB'000	Unaudited For the six months ended June 30, 2013 RMB'000
Interest expense on bank borrowings wholly repayable within five years	**288,355**	241,178
Interest expense on other borrowings	**1,484**	4,635
Interest expense on bonds	**10,066**	10,243
Less: Interest capitalised	**(14,221)**	(17,601)
	285,684	238,455

7. INCOME TAX EXPENSE

	Unaudited For the six months ended June 30, 2014 RMB'000	Unaudited For the six months ended June 30, 2013 RMB'000
Current:		
Mainland China corporate income tax	**208,943**	172,889
Deferred tax	**(15,381)**	(14,250)
Total tax charge for the period	**193,562**	158,639

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 subsidiary incorporated in the British Virgin Islands ("BVI") is not subject to income tax as this subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiary incorporated in Hong Kong is subject to an income 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%).

The share of tax attributable to a joint venture amounting to RMB1,131,000 (six months ended June 30, 2013: RMB1,507,000) is included in "Share of profit of a joint venture" in the consolidated interim statement of profit or loss.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

8. DIVIDENDS

The Board of the Company has resolved not to declare interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil).

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

Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the parent by the weighted average number of shares in issue, during the six months ended June 30, 2014 and 2013, respectively.

No adjustment has been made to the basic earnings per share amounts presented in the six months ended June 30, 2014 and 2013 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	Unaudited For the six months ended June 30, 2014	Unaudited For the six months ended June 30, 2013
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**547,074**	511,282
Shares		
Weighted average number of ordinary shares in issue during the period	**2,557,311,429**	2,557,311,429
Earnings per share		
Basic and diluted (RMB)	**0.21**	0.20

10. INVENTORIES

	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Motor vehicles	**3,598,435**	2,694,793
Spare parts and accessories	**334,356**	307,493
	3,932,791	3,002,286

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

11. TRADE RECEIVABLES

	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Trade receivables	**476,244**	556,939

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. The Group does not offer any credit to the Group's customers for automobile purchases or for out-of-warranty repairs that are not covered by insurance. However, the Group generally provides a credit term of two to three months to automobile manufacturers for the reimbursement of costs relating to the in-warranty repair services. 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.

An aged analysis of the trade receivables as at each statement of financial position date (based on the invoice date, net of impairment) is as follows:

	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Within 3 months	**392,457**	500,320
More than 3 months but less than 1 year	**70,443**	47,026
Over 1 year	**13,344**	9,593
	476,244	556,939

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Neither past due nor impaired	**462,900**	547,346
Over 1 year past due	**13,344**	9,593
	476,244	556,939

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

12. BANK LOANS AND OTHER BORROWINGS

	Unaudited As at June 30, 2014			Audited As at December 31, 2013		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans	**5.5**	**on demand**	**226,635**	5.5	on demand	222,068
	2.3–2.5	**2014–2015**	**506,884**	1.9	2014	153,857
	5.0–7.4	**2014–2015**	**3,712,411**	5.6–9.4	2014	4,075,550
	Libor+1.3%	**2014**	**104,598**	Libor+1.1%	2014	670,697
				Libor+3.0%	2014	304,845
Current portion of long term bank loans	**6.8–7.4**	**2014**	**45,000**	6.8–7.4	2014	50,000
	Libor+3.5%	**2015**	**307,640**			
Other Borrowings	**6.5–9.4**	**2014–2015**	**191,400**	6.3–10.3	2014	380,667
			5,094,568			5,857,684
Non-Current						
Bank loans	**Libor+3.0%**	**2015**	**11,789**	Libor+3.0%	2015	11,570
	Libor+3.7%	**2016**	**1,028,160**	Libor+3.7%	2015–2016	1,012,574
	Libor+3.5%	**2015–2016**	**915,367**			
	6.8	**2015**	**139,830**	6.8	2015	140,000
			2,095,146			1,164,144
			7,189,714			7,021,828

13. TRADE AND BILLS PAYABLES

	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Trade payables	**139,069**	120,040
Bills payable	**4,701,813**	4,244,309
Trade and bill payables	**4,840,882**	4,364,349

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

13. TRADE AND BILLS PAYABLES *(Continued)*

An aged analysis of the trade and bills payables as at the end of reporting period, is as follows:

	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Within 3 months	**4,549,846**	4,227,539
3 to 6 months	**281,713**	131,677
6 to 12 months	**971**	300
Over 12 months	**8,352**	4,833
	4,840,882	4,364,349

The trade and bills payables are non-interest-bearing.

14. BONDS

As at June 30, 2014, outstanding bonds are summarised as follows:

	Face value USD'000	Maturity	Fixed interest rate	**Unaudited June 30, 2014 RMB'000**	Audited December 31, 2013 RMB'000
Bonds	58,160	2017	5.65%	**388,174**	374,632

15. SHARE CAPITAL

	As at June 30, 2014 and December 31, 2013
Shares	
Authorised:	
Ordinary shares	5,000,000,000 shares of HK$0.01 each
Issued and fully paid	
Ordinary shares	2,557,311,429 shares of HK$0.01 each
Equivalent to RMB'000	20,836

Notes to Condensed Consolidated Interim Financial Statements

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16. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees of the Company and its subsidiaries. The Scheme A became effective on 22 April 2013, unless otherwise cancelled or amended, will remain in force for three years from that date. The Scheme B became effective on 10 January 2014, unless otherwise cancelled or amended, will remain in force for three years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 15,150,000 shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% Of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, an amount of HK$1.00 Is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one year and ends on the expiry date of the Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average of the closing prices of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

	2014		2013	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**6.83**	**13,150,000**	–	–
Granted during the year	**6.79**	**2,000,000**	6.83	13,150,000
At 30 June	**6.82**	**15,150,000**	6.83	13,150,000

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

16. SHARE OPTION SCHEME *(Continued)*

No share options were exercised during the year.

The exercise period of the share options outstanding for Scheme A and Scheme B at June 30, 2014 is from April 23, 2014 to April 22, 2016 and from January 11, 2015 to January 10, 2017, respectively.

The fair value of Scheme A was RMB23,020,000 (RMB1.75 each) and the fair value of Scheme B was RMB4,088,000 (RMB2.04 each). During the six months ended June 30, 2014, the Group recognised a share option expense of RMB8,584,000 (six months ended June 30, 2013 RMB4,430,000).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Scheme A	Scheme B
Dividend yield (%)	1.59%	1.48%
Expected volatility (%)	52.69%	49.00%
Risk-free interest rate (%)	0.17%	0.77%
Underlying price (HK$ per share)	6.83	6.79

As the Company's stocks have been listed for only about 2 years as the valuation date, which is much shorter than the time to expiry of the employee share options, the average of the historical volatility of the Company's stock calculated from the stock's available historical prices and the average of the historical stock volatilities of several comparable companies is used to approximate the Company's stock volatility.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the six months ended June 30, 2014, the Company had 15,150,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 15,150,000 additional ordinary shares of the Company and additional share capital of HK$151,500 and share premium of HK$103,235,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 15,150,000 share options outstanding under the Scheme, which represented approximately 0.59% Of the Company's shares in issue as at that date.

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June 30, 2014

17. BUSINESS COMBINATION

As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% of the equity interests of Jincheng Tangdi Auto Sales and Services Co., Ltd. (晉城市唐迪汽車銷售服務有限公司, "Jincheng Tangdi"), which is engaged in the motor vehicle sales and service business in Mainland China, from two third parties in March 2014 at a total consideration of RMB80,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB64,233,000 paid during the period.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Recognised fair values on acquisition RMB'000
Property, plant and equipment	22,699
Intangible assets	17,735
Inventories	26,587
Trade receivables	6,510
Prepayments, deposits and other receivables	135,426
Pledged bank deposits	35,848
Cash in transit	300
Cash and cash equivalents	238
Banks loans and other borrowings	(44,598)
Trade and bills payables	(56,776)
Other payables and accruals	(83,222)
Income tax payable	(1,065)
Deferred tax liabilities	(4,031)
Total identifiable net assets	55,651
Goodwill on acquisition	24,349
Total purchase consideration	80,000

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

17. BUSINESS COMBINATION *(Continued)*

An analysis of the cash flows in respect of the acquisition of Jincheng Tangdi is as follows:

	RMB'000
Cash consideration paid	(64,233)
Cash and cash equivalents acquired	238
Net cash outflow	(63,995)

Since the acquisition, the acquired business contributed RMB66,254,000 to the Group's revenue and RMB1,263,000 to the consolidated profit for the six months ended June 30, 2014.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the period would have been RMB16,292,990,000 and RMB555,775,000, respectively.

The Group acquired Jincheng Tangdi during the six months ended June 30, 2014. The Group engaged an independent appraiser to assist with the identification and determination of fair values to be assigned to Jincheng Tangdi's assets and liabilities. However, the appraisal was not finalized and hence, the initial accounting for the business combination of the Jincheng Tangdi was incomplete by the date the board of directors approved these financial statements. Therefore, the following amounts recognized in the Group's interim financial statements for the six months ended June 30, 2014 in relation to the acquisition of Jincheng Tangdi were on a provisional basis:

	Amount RMB'000
Property, plant and equipment	22,699
Intangible assets	17,735
Deferred tax liabilities	(4,031)
Goodwill	24,349

18. CONTINGENT LIABILITIES

As at June 30, 2014, contingent liabilities not provided for in the financial statements were as follows:

	Unaudited **June 30,** **2014** **RMB'000**	Audited December 31, 2013 RMB'000
Guarantees given to banks in connection with facilities granted to third parties	–	4,800

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

19. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Contracted, but not provided for land use rights and buildings	**282,500**	354,900
Authorised, but not contracted for land use rights and buildings	**140,000**	410,000
	422,500	764,900

(b) Operating lease commitments

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited At June 30, 2014			Audited At December 31, 2013		
	Properties RMB'000	**Land RMB'000**	**Vehicles RMB'000**	Properties RMB'000	Land RMB'000	Vehicles RMB'000
Within 1 year	**84,253**	**62,621**	**8,966**	85,297	55,399	8,884
After 1 year but within 5 years	**232,762**	**160,356**	**35,863**	236,501	146,170	35,538
After 5 years	**343,851**	**425,136**	**38,852**	327,630	513,244	44,422
	660,866	**648,113**	**83,681**	649,428	714,813	88,844

The Group is the lessee in respect of a number of properties, land and vehicles held under operating leases.

20. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

Shanghai Zhongchuang Automobile Sales Co., Ltd. and Shanghai Minhang Kailong Automobile Sales Co., Ltd. entered into lease agreements with Shanghai Kailong, as landlord, pursuant to which each of these subsidiaries leases from Shanghai Kailong the premises currently used by them. The rental expenses of Shanghai Zhongchuang Automobile Sales Co., Ltd. and Shanghai Minhang Kailong Automobile Sales Co., Ltd. were RMB400,000 and RMB200,000, respectively, in the six months ended June 30, 2014 (six months ended June 30, 2013: RMB400,000 and RMB200,000, respectively).

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

20. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Balances with related parties

The Group had the following significant balances with its related parties as at June 30, 2014:

Amounts due from related parties:

	Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
Non-trade related:		
A joint venture		
— Shenyang Xinbaohang Automobile Sales & Services Co., Ltd.	**40,835**	40,835
The Controlling Shareholder		
— Mr. Yang Aihua	**–**	353
	40,835	41,188

(c) Compensation of key management personnel of the Group:

	Unaudited For the six months ended June 30, 2014 RMB'000	Unaudited For the six months ended June 30, 2013 RMB'000
Short term employee benefits	**7,760**	7,360
Post-employee benefits	**294**	281
Total compensation paid to key management personnel	**8,054**	7,641

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		Fair values	
	June 30, 2014 RMB'000	December 31, 2013 RMB'000	**June 30, 2014 RMB'000**	December 31, 2013 RMB'000
Financial liabilities				
Bonds	**388,174**	374,632	**413,373**	379,276
Banks loans	**2,095,146**	1,164,144	**2,096,327**	1,164,481

Management has assessed that the fair values of cash and cash equivalents, cash in transit, pledged bank deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties and current portion of bank loans and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

Management has assessed that the fair values of non-current portion of bank loans and other borrowings with floating interest rates approximate to their carrying amounts because the interest rates are adjusted periodically by reference to the fair market interest rates.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of non-current portion of the bank loans and other borrowings with fixed interest rate and bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for bank loans and bonds as at June 30, 2014 was assessed to be insignificant.

Notes to Condensed Consolidated Interim Financial Statements

June 30, 2014

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

Group

As at June 30, 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Bonds	–	–	413,373	413,373
Banks loans	–	–	2,096,327	2,096,327
	–	–	2,509,700	2,509,700

As at December 31, 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Bonds	–	–	379,276	379,276
Banks loans	–	–	1,164,481	1,164,481
	–	–	1,543,757	1,543,757

22. EVENT AFTER THE REPORTING PERIOD

There is no significant subsequent event undertaken by the Company or by the Group after June 30, 2014.

BAOXIN AUTO GROUP LIMITED
寶信汽車集團有限公司