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

2016
INTERIM REPORT
中 期 報 告

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Jianping *(Chairman)*
Mr. WANG Xinming *(President)*
Mr. LU Ao
Mr. QI Junjie

Non-executive Directors

Mr. ZHOU Yu
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. LI Jianping
Mr. WANG Keyi

NOMINATION COMMITTEE

Mr. WANG Keyi *(Chairman)*
Mr. LI Jianping
Mr. DIAO Jianshen

COMPANY SECRETARY

Mr. CHEN Changdong

AUTHORISED REPRESENTATIVES

Mr. LI Jianping
Mr. CHEN Changdong

STOCK CODE

1293

WEBSITE

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PRINCIPAL SHARE REGISTRAR

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Wanchai, Hong Kong.

LEGAL ADVISER TO HONG KONG LAW

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AUDITORS

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

In the first half of 2016, gross domestic product (GDP) increased by 6.7%, representing a slower growth as compared to the same period last year. As a major pillar industry for the national economy in China, the automobile industry maintained a steady growth in terms of sales volume, which is mainly attributable to the favourable factors such as increasing support for new energy vehicles and preferential policy on vehicle purchase tax that continued to bolster consumption. Comparing with other regions such as Europe, there are still enormous opportunities and development space for China's automobile market considering the GDP growth rate. In particular, the rapid growth of middle class group in China at present has created a large target market and growth potential for luxury and ultra-luxury automobile brands.

The automobile industry in China is now in an era of risks and opportunities, in which China's automobile dealers are confronted with problems such as imbalanced structure of revenue and profit and weaker ability to attract capital inflow as a result of long investment payback period. The industry would need the improvement of policies and scale development to cope with these challenges. Under this circumstance, China's automobile circulation market is seeing some changes in the original landscape of low concentration and fragmented operation and industry consolidation is becoming a general trend. In order to facilitate resources consolidation and achieve strategic synergies in a more effective way, the Group accepted the tender offer from China Grand Automotive Services Co., Ltd. (廣匯汽車服務股份公司) ("**CGA**", and together with its subsidiaries, collectively the "**CGA Group**") in 2015, and the CGA Group officially completed its offer to the Group in June 2016. The merging of the Group with the CGA Group will further solidify the Group's leading position among dealers of luxury and ultra-luxury automobile brands in China as well as continue to maintain the advantageous position as a dealer for brands such as BMW and Jaguar & Land Rover in the domestic market, which will be conductive to the development of the CGA Group together with the Group towards becoming the largest dealer for more brands in China. Looking forward, we will continue to focus on the operation of luxury and ultra-luxury automobile brands such as BMW and Jaguar & Land Rover. Being China's largest automobile dealership and service group, China's largest finance lease provider for passenger vehicles and the largest trading agent for pre-owned automobiles among automobile dealers in China, the CGA Group enjoys competitive edges such as diversified channels and abundant resources in segments such as automobile finance and pre-owned automobiles. The Group will leverage and incorporate these competitive edges of the CGA Group to boost its revenue from businesses such as new car sales, after-sales services and extended services and enhance the Company's profitability.

During the first half of 2016, since the Group was acquired by the CGA Group, it had slowed down the expansion of its dealer network. As of June 30, 2016, the Group had 87 dealership stores and five repair and decoration stores. Among which, 79 of the dealership stores are luxury and ultra-luxury brand stores. Subsequent to the consolidation with the CGA Group, we will assess each of the dealership stores in various aspects, such as profitability and capital efficiency, and plan to eliminate underperforming dealership stores, with a view to achieving a reasonable balance for the distribution network of luxury and ultra-luxury automobiles across the nation and enhancing the Company's overall profitability. During the first half of 2016, the Group's business had dropped due to unstability caused by the CGA Group's tender offer to the Group, as a result, the Group's new car sales results recorded a decline as compared to the same period last year. The slowdown of the new car sales has also posed pressure on the after-sales service business and extended services. Still, the gross profit margin of after-sales services remained at a relatively high level at 46.0%.

During the first half of 2016, amid the slowdown of new car sales, the Group exerted greater control over various types of costs and continued to improve capital efficiency and optimize capital structure at the same time. The finance cost decreased by 10.3% year-on-year. In August 2016, the Group joined the centralized procurement system of the CGA Group and has now commenced centralized procurement for automobile decoration accessories and spare parts. Through centralized procurement, the Group would be able to realize cost advantages and reduce cost of sales to a certain extent, thereby further increasing the gross profit from new car sales and after-sales services.

Looking forward, there will be both challenges and opportunities in the automobile dealership industry in China. Based on the overall development strategy formulated by the CGA Group, we will continue to perfect and implement prudent business strategies with timely adjustment on the development directions for the long-term interests. We will also live up with the trend and seize the market opportunities to further diversify our sources of profit. We will continue to strengthen our strategic cooperation partnership with automobile manufacturers, consolidate customers' resources and explore the service value in the whole life cycle of customers. We will also gradually transform customers' loyalty from automobile brands to dealership service brands, which could foster strong ties with customers and enhance customer retention rate. As dealers gradually shifted the focus of their profit models towards after-sales services and value-added services, the Group will dedicate more efforts in the development of automobile after-sales service business and explore the potential profitability of automobile value-added services, while maintaining steady growth of its new car sales business. Leveraging the competitive edges of well-developed network and comprehensive platform of the CGA Group, we will step up our efforts in promoting the development of automobile financing and pre-owned automobiles business and enhancing the penetration rate of both our financing and pre-owned automobile business. During the process of consolidation, the Group will gradually optimize the personnel structure and management model through departmental adjustments, by changing from the original model of management by business divisions to the management by regions, and at the same time strengthen the execution ability of the management system, enhance the level of operation and management and reduce administrative expenses through resources integration and business optimization. We will continue to strictly control the costs of operation and management and enhance the efficiency of the same so as to expand our income sources, reduce expenses and enhance cost effectiveness.

Subsequent to the merging with the CGA Group, we believe that the Group will be able to create more values and economic returns from its business by leveraging the synergies from the resources integration. We will continue to provide professional and highly-efficient services to our customers by continuous enhancement of our management and operation ability and strive for maintaining steady growth amid the complex and ever-changing industry environment. We strongly believe that the support from our employees, investors and business partners is our motivation and solid foundation to move forward. 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 and trust. We are determined to dedicate ourselves and strive to reciprocate our shareholders with fruitful achievements and strong results.

Li Jianping
Chairman

Hong Kong, August 30, 2016

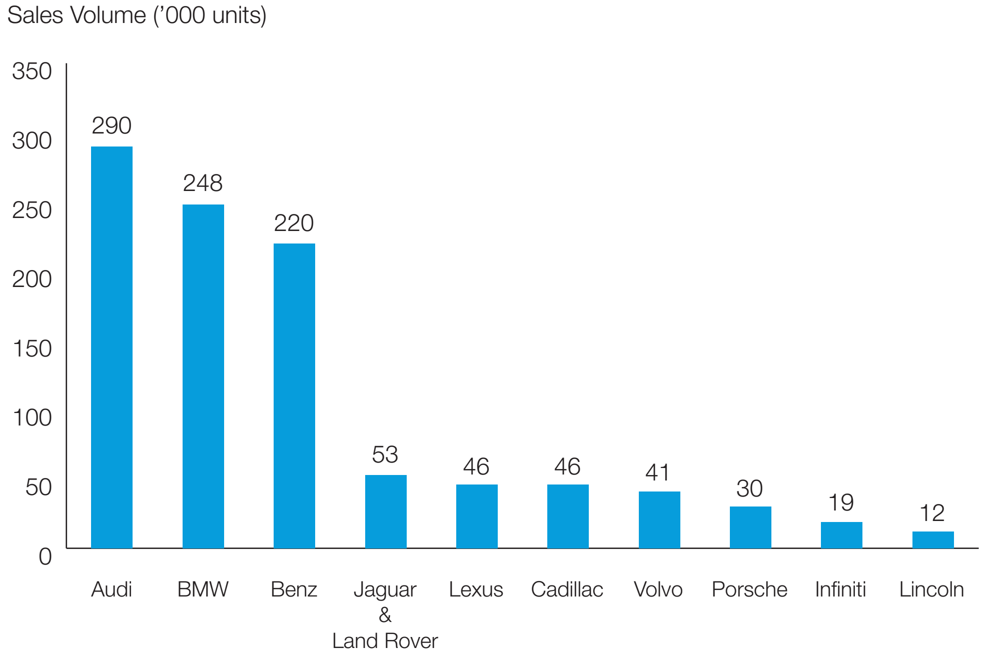
INDUSTRY OVERVIEW

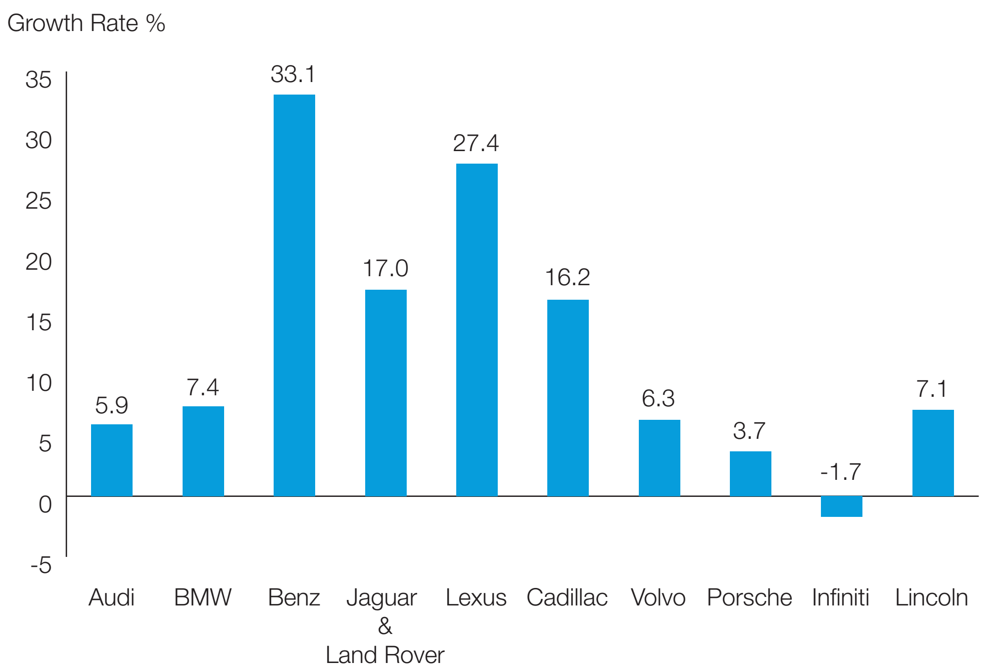
In the first half of 2016, the economic growth in China had shown a downward trend in general, affected by the slow recovery of the global economy and structural adjustment of China's economy. In the first half of the year, gross domestic product (GDP) increased by 6.7%, representing a slower growth as compared to the same period last year. Growth of total retail sales of consumer goods declined from 10.7% in the first half of 2015 to 10.2% for the same period in 2016, showing a steady but slower growth. As a major pillar industry for the national economy in China, the automobile industry managed to maintain a steady growth of sales volume under the downward pressure from the macro-economy. According to the statistics announced by the China Association of Automobile Manufacturers, the automobile production and sales volume in the first half of the year amounted to 12.89 million units and 12.83 million units, representing a year-on-year growth of 6.47% and 8.14%, among which, the production and sales volume of passenger vehicles amounted to 11.10 million units and 11.04 million units, representing a year-on-year growth of 7.32% and 9.23%. Compared to the depressed market in the first half of last year, the sales growth recovered in the first half of this year, which was mainly attributable to the favourable factors such as increased support for new energy vehicles and preferential policy on vehicle purchase tax that continued to bolster consumption.

In the first half of 2016, China's luxury automobile market showed an upward trend in general. Statistics published by the State Information Center indicated that the year-on-year growth of sales volume of luxury automobile in the first half of this year was 13.1% (Note: representing the comparison of the aggregated sales volume of the top nine luxury automobile brands, in the order of Audi, BMW, Benz, Jaguar & Land Rover, Lexus, Cadillac, Volvo, Porsche and Infiniti). Among such sales, except for Infiniti which recorded a year-on-year decline in sales volume, the sales volume of other brands had increased. In particular, the sales volume of Benz, Jaguar & Land Rover, Lexus and Cadillac realized double-digit year-on-year growth in the first half of the year. In general, the first-tier luxury brands still accounted for the majority of market share. The sales volume of each of the three major German brands in China reached over 200,000 units in the first half of the year, totaling 757,769 units and accounting for more than 70% of the market share among luxury brands.

China is the largest single market for Audi and its sales volume maintained a steady increase with a total number of 290,126 units sold (including Audi's imported automobiles) in the first half of the year, representing a year-on-year growth of 5.9%. Among such sales, the sales volume of domestically manufactured automobiles was 265,700 units, representing a year-on-year growth of 9.0% and accounted for 92.0% of the total sales volume. Among Audi's top five domestically manufactured models, all models realized double-digit growths, except A6. The growth rate of BMW sped up in the first half of the year and a total number of 247,644 units were sold. For BMW, the domestic market contributed 21.3% of the global sales volume and the sales volume of domestically manufactured automobiles accounted for 61.0% of the market share. Both BMW 3 Series and X3 realized a higher growth rate in the first half of the year, growing at 17.9% and 37.7%, respectively. The sales volume of the new generation of X1 surged after it was launched in the market in June and it is expected to remain as a growth highlight in the second half of the year. Benz recorded a year-on-year growth of 33.1% in the first half of the year and maintained its continuous growth in the domestic market. In the first half of 2016, the gap among the second-tier luxury brands continued to narrow. Jaguar & Land Rover once again realized rapid growth with Land Rover Discovery Sport (路虎發現神行) and Land Rover Range Rover Evoque (路虎攬勝極光) (both being domestically manufactured models) being the top-selling models of Jaguar & Land Rover in China and accounted for over 50% of the brand's sales volume in China. China has become the second largest single market after the UK for Jaguar & Land Rover. Jaguar XFL, a domestically manufactured model to be launched in the second half of the year, will further enrich the portfolio of Jaguar & Land Rover's domestically manufactured automobiles. As affected by the product supply, the sales volume of Infiniti decreased by 1.7% as compared to the same period of last year.

Sales volume and year-on-year growth rate of top ten luxury automobile brands in China in the first half of 2016





Source: Automobile manufacturers

Judging from the performance of each segment market, the structure of the automobile market is undergoing certain changes in which a high proportion of the market demand is shifting towards SUV and MPV models continuously, while the market demand for sedans and crossover utility vehicles is obviously shrinking. In the first half of the year, the SUV market grew by 44.4% year-on-year while the sales of sedans decreased by 3.91% year-on-year and the sales of crossover utility vehicles decreased by 32.61% year-on-year, representing a widened decline as compared to the same period last year. Affected by the macroeconomic environment, the growth of the automobile market was limited in general, and the market share and actual sales volume of sedans in the passenger vehicle market in China decreased year-by-year. In addition, the preferences of consumption demand in China changed due to factors such as the adoption of the two-child policy, leading to a structural modification in the sedan market and continuous increase in market share of both SUVs and MPVs.

According to the statistics published by the National Imported Vehicle Market Database, in the first half of 2016, the accumulated sales in the imported automobile market in China was 421,000 units, declining by 9.35% year-on-year, representing a narrowed decline as compared to the same period in 2015 of more than 20%. The imported automobile market is still in the phase of adjustment and the dealers have increased the discount rate in order to boost the sales volume, however, the effect was insignificant. The decrease in sales volume of imported automobiles was due to factors such as the slowdown of overall economic growth and certain imported automobile models being manufactured domestically. For instance, luxury brands such as Jaguar & Land Rover and Cadillac are gradually shifting towards domestic manufacturing. Although the sales volume of imported automobiles remained at a low level, the sales of parallel imported automobiles showed a positive trend, with its sales volume reaching 54,548 units, which accounted for more than 12% of the market share of imported automobiles, representing a year-on-year growth of 9.15%. In the first half of the year, eight departments, including the Ministry of Commerce, published the Opinions on Promotion of Pilot Program for Parallel Import of Vehicles (《關於促進汽車平行進口試點的若干意見》), with an aim to expediting the implementation of policies and measures in relation to the pilot program for parallel import of vehicles and to facilitating the realization of solid and effective results from the pilot program. With the support of a series of national policies, it is likely that the market for parallel import of vehicles will witness further development.

In the first half of 2016, the sales volume of new energy automobiles in China grew by 162%, amounting to 169,434 units, which included 126,380 units of pure electric automobiles and 43,054 units of hybrid powered automobiles. Thus, China has become the largest new energy automobiles market in the world. The rapid growth of sales volume of new energy automobiles was mainly driven by policies such as traffic restriction, purchase restriction and subsidies in first-tier cities.

With the improvement of corporate innovation ability, technological advancement of the automobile industry and aggressive entrance of external investors into the traditional automobile manufacturer market, China's automobile industry will enjoy new development potential in the future. Among which, the development of new energy automobiles has triggered a new round of transformation and upgrade in the automobile industry, which will bring about innovation of business models. The integration of automobile and internet technology and principles will also be the general trend in the future. Internet corporations are also speeding up the deployment along the automobile industrial chain. With the preliminary automobile ecosystem based on mobile internet being formed in the market, we have started to see competitions in terms of electrification, intelligence and networking within the automobile industry. Corporations that are able to master the core technology of intelligent automobiles, have insight into the actual needs of the market and implement effective industrial development model will become the major drivers of the market for the electric intelligent automobiles in the future.

BUSINESS OVERVIEW

During the first half of 2016, as the economic growth in China continued to slow down, China's automobile industry saw an imbalance in capacity utilization and a significant structural overcapacity. Meanwhile, with the rising labour costs in the industry, falling market demand for new automobiles and declining revenue of automobile dealers, the automobile industry is facing intensified competition. Under such circumstances, the Group remained prudent towards the growth of new automobile sales. Meanwhile, since the Group was acquired by CGA Group, it had slowed down the expansion of its dealer network and shifted to a conservative strategy aiming for stable development.

Distribution network layout

During the first half of 2016, the Group adopted a general layout plan by selecting potential regions for outlet planning. The Group opened one new 4S store of luxury brand in the first half of 2016, which was the 4S store of Jaguar & Land Rover in Shanghai. As of June 30, 2016, the Group had 87 dealership stores and 5 repair and decoration stores. There were 79 stores of luxury and ultra-luxury brands, accounting for as high as 90% of all the dealership stores. In addition, the Group had 8 dealership stores of mid-to-upper brands, 2 independent repair centres and 3 decoration and damage assessment centres. The Group is committed to expanding its dealership network in a steady and solid pace, while making efforts to optimize the distribution of its existing nationwide dealership outlets for luxury and ultra-luxury brands so that the distribution is balanced and reasonable. After merging with the CGA Group, we will evaluate the performance of each dealership outlet from various aspects such as profitability, capital efficiency, etc. and consider to close down some underperforming dealership outlets in order to improve the overall profitability of the dealership network and enhance the performance of the Group.

New car sales and after-sales services

During the first half of the year, the Group adopted a conservative sales strategy as it was still in the tender offer process. As of June 30, 2016, the Group sold 29,115 units of new automobiles, representing a year-on-year decrease of 11%, among which, sales of luxury brand automobiles and mid-to-upper brand automobiles amounted to 24,172 units and 4,943 units, representing a year-on-year decrease of 13.7% and a year-on-year growth of 5.6%, respectively. During the first half of 2016, with a view to ensuring stable and healthy development of the dealers' automobile sales businesses, after-sales services and extended services in the long run, as well as reducing the inventory pressure of the dealers, BMW had adjusted its wholesale volume target and lowered its target of sales volume growth. In addition, the sales of Jaguar & Land Rover in the first half of the year was affected to a certain extent by the shortage of Range Rover Sport models, while the market experienced robust demand in the first quarter this year. As for the management of sales of new automobiles, the Group strived to maintain sales profits and ensure that the comprehensive gross profit of the sales of new automobiles remains at a stable level.

During the first half of 2016, our after-sales services performance was directly affected by the decrease in the number of in-store automobile maintenance and sales of automobile decoration caused by the decrease in new car sales. As of June 30, 2016, revenue from our after-sales services amounted to RMB1,344.1 million, representing a year-on-year decrease of 23.6%. Although revenue from after-sales services decreased, the gross profit margin of after-sales services for the first half of 2016 remained at a high level of 46.0%.

Automobile value-added services

Automobile value-added business, especially automobile financing and automobile insurance, was also affected by the decrease in new car sales. In the first half of 2016, commission income from automobile value-added business was RMB161.4 million, representing a year-on-year decrease of 8.3%.

Due to the decrease of new car sales volume by 11% in the first half of the year as compared to the same period last year, commission income from insurance in the first half of 2016 was affected, and thus decreased by 8.3% as compared to that of the same period in 2015. The average premium of insurance renewal decreased as a result of the adjustment of automobile insurance premium nationwide and aging of automobiles for insurance renewal. However, the insurance renewal business continued to grow, and the number of vehicles with insurance renewed saw a year-on-year increase of 6%.

Due to the heightened national emission standards in China as well as the influence by the decrease of new car sales volume, the trade-in volume of pre-owned automobiles in the first half of 2016 declined as compared to the same period last year, and the trade-in ratio of pre-owned automobiles dropped by 2 percentage points in the first half of the year as compared to the same period last year. Meanwhile, the emergence of a number of e-commerce platforms has intensified the competition faced by pre-owned automobiles businesses in the industry.

Stringent cost control to enhance capital efficiency

During the first half of 2016, the Group exerted stringent control over various types of costs. The Group made adjustments to internal policies according to the market trend regarding the control over sales and operating costs. The Group continued to improve capital efficiency and optimize its capital structure. In order to effectively control its finance costs, the Group selectively obtained financing either from manufacturers or banks, through reasonable planning based on automobile models, timing of sales and manufacturers' events for different automobile brands. By effectively controlling the financial gearing and debt level, the Group lowered the finance costs by 10.3% in the first half of 2016 as compared to that of the same period in 2015.

Achieving synergies through integration with the CGA

In June 2016, the CGA Group officially completed its tender offer for the Group. As China's largest automobile dealership and services group, passenger vehicle finance leasing provider, and pre-owned automobile trading agency among automobile dealers in China, the CGA Group has been in a leading position in the industry. Following the acquisition of the Group, the CGA Group continued to position the Group as the largest dealer of BMW and Jaguar & Land Rover brands in Mainland China, and strive to make the Group a leading company for automobile dealership of luxury and ultra-luxury brands on this basis. Moreover, the CGA Group's business, which places emphasis on mid-to-upper brands and nationwide expansion, will also be well-complemented by the Group in terms of brand operation and geographical distribution. Meanwhile, the integration will facilitate the centralized management and business expansion of the two groups, achieve synergy effects, expand cost advantages and enhance risk resistance capacity, which will foster strong competitive edge in China's highly fragmented automobile dealership industry.

The CGA Group will consolidate its resources with those of the Group in terms of brand, channel, management and operation for complementary purposes, which would facilitate the integration of its automobile sales, after-sales services, finance leasing, marketing and customer service with the Group. The Group will gradually optimize the personnel structure and management model through structural adjustment. The initial structural adjustment from the original management by divisions to the management by regions has been completed with a view to improving the standards of operation and management, which will in turn increase the revenue from businesses of automobile sales, after-sales services and value-added services. Meanwhile, the new management model will also reduce the cost of sales and administrative expenses, potentially leading to an increase in the gross profit margin. Upon completion of the integration, the Group will be committed to increasing the revenue and profit margin of automobile sales and after-sales services, pushing forward the expansion of the coverage of its passenger vehicle dealership services and boosting the development of automobile value-added services by leveraging the strong finance leasing business platform and standardized pre-owned automobile business structure of the CGA Group, with a view to further enhancing the advantageous businesses along the industry chain of the after-sales market and to increasing revenue from value-added businesses.

With respect to the automobile finance leasing business, leveraging the advantages offered by the platform of the CGA Group, the Group will provide more diversified financial products and services, while reducing the operating costs and capital costs with the assistance of the distribution network across the nation and diversified capital sources from the CGA Group. The Group will provide customers with one-stop services based upon its business structure built along the whole industry chain. It will also improve the performance of the Group's automobile sales by expanding sales channels of whole-vehicles, while integrating various services such as repairs, maintenance and insurance agency in a more effective way as well as providing more rooms for the development of pre-owned automobile business. This will ultimately help to facilitate the development of comprehensive and integrated services for automobile dealership, thereby securing and strengthening the Group's leading position in the field of automobile dealership services for luxury and ultra-luxury brands.

With respect to pre-owned automobiles business, with the gradual relaxation of the policy restriction on relocation across the country, the trading environment of pre-owned vehicles has been improved. The CGA Group is the largest trading agent of pre-owned automobiles among the automobile dealers in China. Following the integration of its pre-owned automobiles business with the CGA Group, the Group will take advantage of its highly efficient business model to explore resources and channels and improve the operating capacity, so as to achieve rapid growth in offline business and commission income whilst promoting professional and standardized agency services for pre-owned automobiles trading, thereby forming the ecosystem of pre-owned automobiles business.

Meanwhile, after the integration with the CGA Group, the Group will further strengthen cost control, improving operation efficiency and risk management procedures to enhance overall revenue and profitability. The Group has joined the centralized procurement system of the CGA Group and has now commenced centralized procurement for automobile decoration accessories and spare parts. Through centralized procurement, the Group would be able to realize cost advantages and reduce cost of sales to a certain extent, thereby further increasing the gross profit from automobiles sales and after-sales services.

FINANCIAL REVIEW

Revenue

For the six months ended June 30, 2016, our revenue was RMB10,871.4 million, representing a decline of approximately 22.6% compared to the same period in 2015. The decrease was primarily due to a decrease of RMB2,751.0 million, or 22.4%, in automobile sales revenue, particularly from the sales of luxury and ultra-luxury automobiles, as compared to the same period in 2015.

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

	Unaudited For six months ended June 30, 2016		Unaudited For six months ended June 30, 2015	
Revenue Source	**Revenue (RMB'000)**	**Contribution (%)**	Revenue (RMB'000)	Contribution (%)
Automobile sales	**9,524,462**	**87.6**	12,275,502	87.4
After-sales business	**1,344,089**	**12.4**	1,758,675	12.6
Finance lease income	**2,850**	**0.0**	3,163	0.0
Total	**10,871,401**	**100.0**	14,037,340	100.0

Automobile sales generated a substantial portion of our revenue, accounting for 87.6% of our revenue for the six months ended June 30, 2016. Revenue generated from the sale of luxury and ultra-luxury brands and our mid-to-upper market brands accounted for approximately 93.7% (six months ended June 30, 2015: 94.5%) and 6.3% (six months ended June 30, 2015: 5.5%), respectively, of our revenue from the sales of automobiles. The decrease of revenue from the sales of automobiles of RMB2,751.0 million was mainly attributable to the decrease of revenue from the sales of luxury and ultra-luxury automobiles, which was mainly due to (1) the decrease of the number of luxury and ultra-luxury automobiles sold by the Group from 28,015 units for the six months ended June 30, 2015 to 24,172 units for the same period in 2016, representing a decrease of approximately 13.7%; and (2) the decrease in average selling price for the six months ended June 30, 2016 as compared to the same period in 2015 due to the changes in automobile models sold and the decrease in selling price due to supply and demand imbalance.

Revenue from our after-sales business decreased by 23.6% from RMB1,758.7 million for the six months ended June 30, 2015 to RMB1,344.1 million for the same period in 2016. The decrease in revenue from after-sales business was mainly due to the decrease of sales of automobiles in the second half of 2015 which resulted in the decrease of the number of automobiles that received after-sales services for the six months ended June 30, 2016 as compared to the same period in 2015. In addition, the selling price of certain spare parts was adjusted downwards by certain manufacturers which also contributed to the decrease in revenue from after-sales business. The relative contribution of our after-sales business to our revenue decreased from 12.5% for the six months ended June 30, 2015 to 12.4% for the same period in 2016.

Cost of sales and services

For the six months ended June 30, 2016, our cost of sales and services decreased by 22.2%, from RMB12,737.4 million for the same period in 2015 to RMB9,914.6 million. This decrease was consistent with the decline in our sales throughout the six months ended June 30, 2016.

The cost of sales and services attributable to our automobile sales business amounted to RMB9,188.1 million for the six months ended June 30, 2016, representing a decrease of RMB2,613.6 million, or 22.1%, from the same period in 2015. The cost of sales attributable to our after-sales business amounted to RMB726.3 million for the six months ended June 30, 2016, representing a decrease of RMB209.3 million, or 22.4%, from the same period in 2015.

Gross profit and gross profit margin

Gross profit for the six months ended June 30, 2016 was RMB956.8 million, representing a decrease of RMB343.1 million, or 26.4%, from the same period in 2015. Gross profit from automobile sales decreased by 29.0% from RMB473.8 million for the six months ended June 30, 2015 to RMB336.3 million for the same period in 2016, of which RMB330.4 million were from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business decreased by 24.9% from RMB823.1 million for the six months ended June 30, 2015 to RMB617.8 million for the same period in 2016. Automobile sales and after-sales business contributed 35.2% and 64.6%, respectively, to the total gross profit for the six months ended June 30, 2016.

Gross profit margin for the six months ended June 30, 2016 was 8.8% compared to 9.3% of the same period last year, of which the gross profit margin of automobile sales was 3.5% compared to 3.9% of the same period last year, and after-sales business was 46.0% compared to 46.8% of the same period last year. The gross profit margin of automobile sales for the six months ended June 30, 2016 decreased 0.4 percentage points as compared to the same period last year, which was mainly attributable to the drop of the selling price. Due to the downward adjustment of the selling price of spare parts by manufacturers, the gross profit margin of after-sales business slightly decreased by 0.8 percentage points as compared to the same period last year.

Other income and net gains

Other income and net gains decreased by 14.3% from RMB221.8 million for the six months ended June 30, 2015 to RMB190.1 million for the same period in 2016, mainly due to a decrease in the commission income from RMB176.0 million for the six months ended June 30, 2015 to RMB161.4 million for the same period of 2016. The insurance commission, commission from financing services business and commission from pre-owned automobiles agency business was in line with the decrease in sales of automobiles.

Profit from operations

As a result of the foregoing, our profit from operations for the six months ended June 30, 2016 decreased by 56.3% from RMB819.7 million in the same period last year to RMB357.9 million.

Profit for the period

As a result of the cumulative effect of the foregoing, our profit for the six months ended June 30, 2016 decreased by 83.4% from RMB403.2 million in the same period last year to RMB66.8 million.

Taxation

Income tax expense decreased by 62.8% from RMB139.4 million for the six months ended June 30, 2015 to RMB51.9 million for the same period in 2016. Our effective tax rate increased from 25.7% for the six months ended June 30, 2015 to 43.7% for the same period of 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

As at June 30, 2016, our cash and cash equivalents amounted to RMB1,110.7 million, representing a decrease of 48.6% from RMB2,161.0 million as at December 31, 2015.

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

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time. For the six months ended June 30, 2016, our net cash generated from operating activities, net cash used in investing activities, and net cash used in financing activities were RMB471.7 million (six months ended June 30, 2015: RMB448.1 million), RMB138.4 million (six months ended June 30, 2015: RMB318.0 million), and RMB1,351.9 million (six months ended June 30, 2015: RMB164.7 million), respectively.

Net Current Assets

As at June 30, 2016, we had net current assets of RMB4.3 million, representing a decrease of RMB8.9 million from RMB13.2 million as at December 31, 2015.

Capital Expenditure

Our capital expenditures primarily comprised of expenditures on property, plant and equipment, land use rights and intangible assets. During the six months ended June 30, 2016, our total capital expenditure was RMB257.7 million (six months ended June 30, 2015: RMB375.5 million).

Inventory

Our inventories primarily consisted of new automobiles and 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 inventories increased by 28.9% from RMB2,454.9 million as at December 31, 2015 to RMB3,164.5 million as at June 30, 2016, primarily due to the seasonal fluctuation as the inventory level at year end peak season is usually low while the inventory level at mid-year will rise and later starts to fall towards the year end.

Our average inventory turnover days in the six months ended June 30, 2016 increased to 51.0 days from 40.3 days as compared to the same period in 2015 primarily due to the decrease in sales volume being more significant than the decrease in inventory level.

Interest-bearing bank and other borrowings

As at June 30, 2016, the Group's available and unutilized banking facilities amounted to approximately RMB6,405.2 million (December 31, 2015: RMB10,279.2 million).

Our interest-bearing bank and other borrowings as at June 30, 2016 were RMB7,210.5 million, a decrease of RMB1,070.4 million from RMB8,280.9 million as at December 31, 2015. The significant decrease of bank borrowings balances was mainly due to the Company adopting relatively stringent fund management policies which improved the fund utilization efficiency and resulted in the significant decrease in bank borrowings.

Interest rate risk and foreign exchange rate risk

The Group currently has not used any derivatives to hedge interest rate risk. The Group conducts its business primarily in Renminbi. Certain bank deposits, bank borrowings and credit enhanced bonds were denominated in foreign currencies. The Group has entered into various forward currency options to manage its exchange rate risk exposure. These forward currency options are not designated for hedging purposes and are measured at fair value through profit or loss. As at June 30, 2016, a fair value of RMB27.3 million (June 30, 2015: Nil) was recognized by the Group on the forward currency options.

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, 2016 was 69.3% (December 31, 2015: 69.3%).

Human resources

As at June 30, 2016, the Group has approximately 5,918 employees (December 31, 2015: 6,158). Total staff costs for the six months ended June 30, 2016, excluding directors' remuneration were approximately RMB338.3 million (six months ended June 30, 2015: RMB275.7 million).

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

Contingent liabilities

As at June 30, 2016 and December 31, 2015, the Group had no significant contingent liabilities.

Pledge of the Group's assets

Our Group had pledged our group assets and shares in certain subsidiaries as securities against interest-bearing bank and other borrowings and bills payable which were used to finance daily business operation and acquisition. As at June 30, 2016, the pledged group assets amounted to approximately RMB3,935.5 million (December 31, 2015: RMB3,941.2 million); the Group did not have any pledged letter of credits (December 31, 2015: RMB13.0 million).

Changes since December 31, 2015

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, 2015.

OUTLOOK AND STRATEGY

China's automobile circulation market has entered into a period of intensive adjustment and will be developing into a mature market. The industry has witnessed changes from the original industry landscape of low concentration and fragmented operations. In recent years, with decreasing profit from new automobiles and rising land rentals and labour costs, the overall profit of automobile dealers in China showed a downward trend. In addition, as traditional dealership industry has a longer investment payback period, the development of China's automobile industry has entered into the new normal status of "slight growth". In light of the slowdown of growth rate of the automobile industry, enhancing the risk resistance capacity of automobile dealers through business expansion and centralized management in the automobile circulation market would be one of the fastest and effective ways to position ourselves to capitalize on the advantages of our extended business and to maintain the balance of the structure of revenue and profit.

The acquisition of the Group by the CGA Group has been completed during the first half of 2016. Subsequently, further integration in terms of brand management, regional management, remuneration and performance management as well as capital allocation management will be carried out. Synergies will be achieved by combining the advantages from the scale and diversification of the CGA Group's business, which will better reduce operation costs and improve corporate profitability. On the basis of the well-established enterprise resource planning system, customer relations management system, e-commerce platform, capital system and finance leasing system of the CGA Group, we would be able to adopt an integrated management model for human resources, business, finance and capital, thereby realising refined management.

Based on the overall development strategy formulated by the CGA Group, we will continue to perfect and implement prudent business strategies with timely adjustment on the development directions for the long term interests. We will also live up with the trend and seize the market opportunities. As for new car sales and after-sales services business, we will continue to strengthen our strategic cooperation partnership with automobile manufacturers, consolidate customers' resources and explore the service value in the whole life cycle of customers. We will also gradually transform customers' loyalty from automobile brands to dealership service brands, which could foster strong ties with customers and enhance customer retention rate. Meanwhile, there are still huge potentials for profit from automobile value-added services to grow. Leveraging the well-developed network and comprehensive platform of the CGA Group, we will step up our efforts in promoting the development of automobile financing and pre-owned automobiles business. Moreover, by enhancing the cooperation with major insurance companies and commercial banks, we will expand the automobile insurance and financing business and devote more resources in the development and launch of products that can attract loyal customers easily, such as insurance and insurance renewal, with a view to raising its penetration rate and profit margin. Facing the volatile market environment, we will continue to strictly control the inventory level and costs of operation and management, so as to expand our income sources, reduce expenses and enhance cost effectiveness.

DIRECTORS' OR CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2016, the interests and short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (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/Chief executive	Nature of interest	Number of shares or underlying shares[2]	Approximate percentage of shareholding interest
Mr. Zhao Hongliang[1]	Beneficial owner	4,128,631 (L)	0.16%
Mr. Chen Changdong	Beneficial owner	4,376,349 (L)	0.17%

Notes:

(1) Mr. Zhao Hongliang resigned as an executive Director with effect from July 29, 2016.

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

Save as disclosed above, as at June 30, 2016, none of the Directors, chief executives 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, 2016, 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, 2016, 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.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF THE SHAREHOLDERS UNDER THE SFO

As at June 30, 2016, 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[4]	Approximate percentage of shareholding interest
China Grand Automotive Services (Hong Kong) Limited (廣匯汽車服務(香港)有限公司)[1]	Beneficial owner	1,917,983,571 (L)	75.00%
China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司)[1]	Interest in controlled corporation	1,917,983,571 (L)	75.00%
Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司)[1]	Interest in controlled corporation	1,917,983,571 (L)	75.00%
China Grand Automotive Services Co., Ltd. (廣匯汽車服務股份公司)[1]	Interest in controlled corporation	1,917,983,571 (L)	75.00%
Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司)[1]	Interest in controlled corporation	1,917,983,571 (L)	75.00%
Mr. Sun Guangxin[1]	Interest in controlled corporation	1,917,983,571 (L)	75.00%
Baoxin Investment Management Ltd.[2]	Beneficial owner	301,687,389 (L)	11.80%
Sunny Sky Limited[2]	Interest in controlled corporation	301,687,389 (L)	11.80%
Credit Suisse Trust Limited[2]	Trustee	301,687,389 (L)	11.80%
Brock Nominees Limited	Interest in controlled corporation	301,687,389 (L)	11.80%
Tenby Nominees Limited	Interest in controlled corporation	301,687,389 (L)	11.80%
Mr. Yang Aihua[2][3]	Interest in controlled corporation	332,754,130 (L)	13.01%

Notes:

(1) China Grand Automotive Services (Hong Kong) Limited (廣匯汽車服務(香港)有限公司) is owned as to 0.01% by China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) and 99.99% by Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司) (which is in turn wholly owned by China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司)). China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) is wholly owned by China Grand Automotive Services Co., Ltd. (廣匯汽車服務股份公司) which is owned as to approximately 37.26% by Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司). Mr. Sun Guangxin holds approximately 71.73% of the shares in Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司). Each of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司), Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司), China Grand Automotive Services Co., Ltd. (廣匯汽車服務股份公司), Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司) and Mr. Sun Guangxin are deemed to be interested in the shares of the Company held by China Grand Automotive Services (Hong Kong) Limited (廣匯汽車服務(香港)有限公司).

(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 Management Ltd.. Sunny Sky Limited is controlled by Credit Suisse Trust Limited which is the trustee of a discretionary trust of which Mr. Yang Aihua, together with his children and further issue are beneficiaries (the "**Family Trust**").

(3) Ms. Yang Chu Yu, a daughter of Mr. Yang Aihua, is the trustee of a discretionary trust of which Mr. Yang Aihua, and Mr. Yang Zehua, together with their respective children and further issue are beneficiaries (the "**Yang's Trust**"). Mr. Yang Aihua is deemed to be interested in the shares held by Baoxin Investment Management Ltd. and Auspicious Splendid Global Investments Limited pursuant to trust arrangements under the Family Trust and the Yang's Trust. As at June 30, 2016, Auspicious Splendid Global Investments Limited held 31,066,741 shares in the Company, representing approximately 1.21 % of the total issued share capital of the Company.

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

Save as disclosed above, the Company has 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, 2016.

CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Directors report that, on August 23, 2016, the Company (as the borrower) entered into a loan agreement (the "**Facility Agreement**") with, among others, a syndicate of banks (collectively, the "**Lenders**") with Standard Chartered Bank (Hong Kong) Limited acting as the facility agent of the Lenders (the "**Facility Agent**") for a term loan facility in the principal amount of up to US$750,000,000. The loan facility is available for drawdown for a period of three (3) months from the date of the Facility Agreement and the loans made under the Facility Agreement shall be repaid within 36 months and 12 months from the first utilization date of the loans for tranche A and tranche B, respectively. The purpose of the loan facility is primarily to refinance the existing indebtedness and for the corporate funding requirement of the Company and its subsidiaries.

Pursuant to the Facility Agreement, among other things, China Grand Automotive Services Co., Ltd. (廣匯汽車服務股份公司) (the shares of which are listed on the Shanghai Stock Exchange (SSE Stock Code: 600297, and which indirectly holds 75% of the issued share capital of the Company as at the date of this report) shall beneficially own (whether directly or indirectly) at least 51% of the voting shares of and economic rights in the Company at any time before the final maturity date of the loan facility. Otherwise, it will constitute an event of default under the Facility Agreement and the loan facility may become immediately due and payable.

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 Listing Rules.

In the opinion of the Directors, throughout the six months ended June 30, 2016, the Company has complied with all the code provisions set out in the CG Code, save and except for code provisions A.2.1 and A.4.1.

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. Prior to the change of directors of the Company on June 21, 2016, our former chairman, Mr. Yang Aihua, was responsible for the operation and management of the Board, whilst our former vice-chairman and chief executive officer, Mr. Yang Hansong, was responsible for the business operations of the Company.

The Board considers that the respective responsibilities of the chairman and chief executive officer were clear and distinctive and therefore written terms thereof were not necessary. With effect from June 21, 2016, Mr. Yang Aihua resigned as the chairman of the Company and Mr. Li Jianping was appointed in his stead, and Mr. Yang Hansong resigned as a vice-chairman and the chief executive officer of the Company and no chief executive officer was appointed. With effect from June 21, 2016, the day-to-day management of the Group is delegated to other executive Directors and the management of the Company. The Board is of the view that the current management structure can effectively facilitate the Group's operation and business development.

Under code provision A.4.1, the non-executive Directors should be appointed for a specific term and subject to re-election. Mr. Lu Linkui, who was appointed as a non-executive Director with effect from March 31, 2014, did not enter into any service contract with the Company and does not have a specific term of appointment. However, Mr. Lu Linkui is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the articles of association of the Company. Mr. Lu Linkui retired and was re-elected as a non-executive Director at the annual general meeting of the Company held on June 18, 2015. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

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, 2016.

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 employees was noted by the Company.

AUDIT COMMITTEE REVIEW

Pursuant to the requirement of the CG Code and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**") comprising Mr. Diao Jianshen (chairman), Mr. Wang Keyi and Mr. Chan Wan Tsun Adrian Alan, all of whom are independent non-executive Directors. The written terms of reference of the Audit Committee, the revised form of which was approved by the Board on August 31, 2015, are available at the websites of the Company and the Stock Exchange.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2016 and are of the view that the Group's condensed consolidated financial statements for the six months ended June 30, 2016 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

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, 2016 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 or disposal during the six months ended June 30, 2016.

WAIVER FROM STRICT COMPLIANCE WITH PUBLIC FLOAT REQUIREMENT UNDER RULE 8.08(1)(A) OF THE LISTING RULES

Pursuant to Note 1 to Rule 8.08(1)(b) of the Listing Rules, trading in the shares of the Company was suspended with effect from 9:00 a.m. on June 22, 2016. The Company has applied for and the Stock Exchange has subsequently granted a waiver from strict compliance with the public float requirement under Rule 8.08(1)(a) of the Listing Rules for a three-month period from June 21, 2016 to September 21, 2016.

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2016 (six months ended June 30, 2015: Nil).

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, 2016, no share options to subscribe for the ordinary shares of the Company were granted under the Share Option Scheme, 11,662,464 share options were cancelled and 100,000 share options lapsed. No share option was exercised during the six months ended June 30, 2016. The particulars of the share options under the Share Option Scheme are as follows.

					Number of share options						
Type of participant	Date of grant	Exercise period	Vesting period	Exercise price per Share	Outstanding as at January 1, 2016	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Expired during the Reporting Period	Outstanding as at June 30, 2016
Employee	September 4, 2014	Upon acceptance of the share options by the relevant grantee till the earlier of (i) the day on which the relevant grantee ceases to be an employee of the Company and its subsidiaries and (ii) September 4, 2016	One-off basis upon acceptance of the share options by the relevant grantee	HK$5.72	15,550,000	–	–	11,662,464	100,000	–	3,787,536

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 (as defined in the Listing Rules) of any of them. 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 dated December 2, 2011.

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

With effect from June 21, 2016, Mr. Yang Aihua has resigned as an executive Director and chairman of the Company.

With effect from June 21, 2016, Mr. Yang Hansong has resigned as an executive Director and vice-chairman of the Company.

With effect from June 21, 2016, Mr. Yang Zehua has resigned as an executive Director and vice president of the Company.

With effect from June 21, 2016, Ms. Hua Xiuzhen has resigned as an executive Director and the chief supervisor of the treasury department of the Company.

With effect from July 29, 2016, Mr. Zhao Hongliang has resigned as an executive Director of the Company.

With effect from June 21, 2016, Mr. Li Jianping ("**Mr. Li**") has been appointed as an executive Director, chairman of the Board, a member of the remuneration committee and a member of the nomination committee of the Company. Mr. Li has been the chairman of the board of CGA since July 2015 and has been an executive director of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) and its predecessor since September 2013. Mr. Li was a president of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) and its predecessor from August 2013 to July 2015 and a vice president of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) and its predecessor from May 2012 to August 2013. Mr. Li was the chairman and general manager of Xinjiang Military Imported Auto Parts Co., Ltd. (新疆軍工進口汽車配件有限公司), currently a subsidiary of CGA, from August 1988 to April 2008. Mr. Li has been serving as the general manager and chairman of Urumqi Huatong Toyota Sales and Services Co., Ltd. (烏魯木齊華通豐田汽車銷售服務有限公司), currently a subsidiary of CGA, since October 2002. Mr. Li was the chairman and general manager of a subsidiary of CGA, Xinjiang Tianhui Automobile Services Co., Ltd. (新疆天匯汽車服務有限公司) from April 2008 to August 2013. Mr. Li obtained a university diploma in economics and management by taking correspondence courses from Urumqi Army Institute (烏魯木齊陸軍學院) in June 2006. Mr. Li has entered into a service contract with the Company dated June 21, 2016 in relation to his appointment as an executive Director for a term of three years with effect from June 21, 2016. His appointment shall be subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the "**Articles of Association**"). Mr. Li will be entitled to an annual remuneration of RMB1,000,000. Mr. Li will also be entitled to a discretionary bonus to be determined by the Board or the shareholders of the Company at general meeting of the Company. All of the above remunerations were determined with reference to the duties and responsibilities of Mr. Li with the Company, the Company's performance and the prevailing market condition.

With effect from June 21, 2016, Mr. Wang Xinming ("**Mr. Wang**") has been appointed as an executive Director and president of the Company. Mr. Wang has been a Director of CGA since June 2016, and a president of CGA since May 2016. Mr. Wang served as a vice president of CGA from July 2015 to May 2016. From December 2013 to July 2015, Mr. Wang was the assistant to the president of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) and its predecessor. Mr. Wang served successively as a deputy store manager, vice general manager of operations, executive vice general manager of operations and general manager of Hebei region, general manager of the north China region and general manager of the greater north China region of CGA from November 2008 to November 2013. Mr. Wang served successively as the store manager and general manager for store operations of Shijiazhuang Tianhe Automobile Dealership Co., Ltd. (石家莊天河汽車貿易有限公司) from January 2002 to November 2008. Mr. Wang obtained a bachelor's degree in administrative management from Hebei University of Economics and Business (河北經貿大學) in July 1994. Mr. Wang has entered into a service contract with the Company dated June 21, 2016 in relation to his appointment as an executive Director of the Company for a term of three years with effect from June 21, 2016. Such appointment shall be subject to retirement by rotation and re-election in accordance with the Articles of Association. Mr. Wang will be entitled to receive an annual remuneration of RMB800,000. Mr. Wang will also be entitled to a discretionary bonus to be determined by the Board or the shareholders of the Company at general meeting of the Company. All of the above remunerations were determined with reference to the duties and responsibilities of Mr. Wang with the Company, the Company's performance and the prevailing market condition.

With effect from June 21, 2016, Mr. Lu Ao ("**Mr. Lu**") has been appointed as an executive Director of the Company. Mr. Lu has been the vice president and chief financial officer of CGA since July 2015. Mr. Lu served as the chief business development officer, vice president, and vice president and chief financial officer of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) and its predecessor from January 2007 until July 2015. Mr. Lu served as a manager of the corporate development department of the Asia Pacific region of Danone from August 2005 to September 2006, and a manager of the corporate investment and M&A strategic consulting department of PricewaterhouseCoopers from January 2004 to August 2005. Mr. Lu obtained a bachelor's degree in economics from Southwest University of Finance and Economics (西南財經大學) in July 1995, and obtained an MBA degree from Fordham University in the Beijing International MBA program at Peking University in February 2004. Mr. Lu was admitted as a certified public accountant of PRC by Chinese Institute of Certified Public Accountants in August 1998. Mr. Lu has entered into a service contract with the Company dated June 21, 2016 in relation to his appointment as an executive Director of the Company for a term of three years with effect from June 21, 2016. Such appointment shall be subject to retirement by rotation and re-election in accordance with the Articles of Association. Mr. Lu will be entitled to an annual remuneration of RMB800,000. Mr. Lu will also be entitled to a discretionary bonus to be determined by the Board or the shareholders of the Company at general meeting of the Company. All of the above remunerations were determined with reference to the duties and responsibilities of Mr. Lu with the Company, the Company's performance and the prevailing market condition.

With effect from June 21, 2016, Mr. Zhou Yu ("**Mr. Zhou**") has been appointed a non-executive Director of the Company. Mr. Zhou has been a vice president of CGA since July 2015. From May 2012 to July 2015, Mr. Zhou was a vice president of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) and its predecessor. Mr. Zhou worked at Anhui Fengzhixing Investment Holding Co., Ltd. (安徽風之星投資控股有限責任公司), currently a subsidiary of CGA, as the general manager from September 2006 to March 2011, and at CGA as the general manager of the central China region from September 2006 to April 2012. Mr. Zhou served as the general manager at Anhui Fengzhixing Automobile Company Limited (安徽風之星汽車股份有限公司) from March 2004 to September 2006. Mr. Zhou served successively as the vice-general manager and general manager of corporate banking department of China Everbright Bank Hefei branch from February 2000 to February 2004. Mr. Zhou obtained a bachelor's degree in planned economics from Renmin University of China in July 1990. Mr. Zhou has entered into a letter of appointment with the Company dated June 21, 2016 in relation to his appointment as a non-executive Director of the Company for a term of one year with effect from June 21, 2016. Such appointment shall be subject to retirement by rotation and re-election in accordance with the Articles of Association. Mr. Zhou will be entitled to receive an annual remuneration of RMB600,000, which is determined by reference to his duties and responsibilities and the prevailing market conditions.

With effect from July 29, 2016, Mr. Qi Junjie ("**Mr. Qi**") has been appointed as an executive Director of the Company. Mr. Qi has been the secretary of the party committee of CGA since May 2016 and was the chairman of the board of Xinjiang Guanghui Liquefied Natural Gas Development Co., Ltd. (新疆廣匯液化天然氣發展有限責任公司) from September 2015 to July 2016. Mr. Qi has been a director of Xinjiang Guanghui Energy Company Limited (新疆廣匯能源股份有限公司) since October 2015. Mr. Qi served as the deputy county chief and deputy secretary of Xinjiang Jimunai County (新疆吉木乃縣) and the director of the National Border Co-operative District (國家邊境合作區) from July 2008 to September 2014. Mr. Qi was an official of the Forestry Administration of Xinjiang Aletai District (新疆阿勒泰地區林業局) from July 1994 to July 2008. Mr. Qi obtained a master degree in botanical architecture specialty from Xinjiang Agricultural University (新疆農業大學) in July 1997 and obtained a bachelor's degree in plant protection specialty from Xinjiang Agricultural University (新疆農業大學) in July 1994. Mr. Qi has entered into a service contract with the Company dated July 29, 2016 in relation to his appointment as an executive Director of the Company for a term of three years with effect from July 29, 2016. His appointment shall be subject to retirement by rotation and re-election in accordance with the Articles of Association. Mr. Qi will be entitled to an annual remuneration of RMB800,000. Mr. Qi will also be entitled to a discretionary bonus to be determined by the Board or the shareholders of the Company at general meeting of the Company. All of the above remunerations were determined with reference to the duties and responsibilities of Mr. Qi with the Company, the Company's performance and the prevailing market condition.

Save as disclosed above, none of the new Directors (i) has held any directorship in any public company listed in Hong Kong or overseas in the past three years; and (ii) has any relationship with any Directors, senior management or substantial or controlling shareholders of the Company as at the date of this report. Each new Director has confirmed that there is no other information relating to his appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other matters that need to be brought to the attention of the shareholders of the Company.

Save as disclosed above, 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 2015 annual report of the Company on April 28, 2016.

Consolidated Interim Statement of Profit or Loss

For the six months ended June 30, 2016

	Notes	**Unaudited For the six months ended June 30, 2016 RMB'000**	Unaudited For the six months ended June 30, 2015 RMB'000
REVENUE	4(a)	**10,871,401**	14,037,340
Cost of sales and services provided	5(b)	**(9,914,574)**	(12,737,406)
Gross profit		**956,827**	1,299,934
Other income and gains, net	4(b)	**190,119**	221,789
Selling and distribution expenses		**(448,646)**	(434,750)
Administrative expenses		**(340,421)**	(267,233)
Profit from operations		**357,879**	819,740
Finance costs	6	**(241,989)**	(269,632)
Share of profit of a joint venture		**2,782**	2,915
Share of profit of an associate		**–**	(10,360)
Profit before tax	5	**118,672**	542,663
Income tax expense	7	**(51,902)**	(139,424)
Profit for the period		**66,770**	403,239
Attributable to:			
Owners of the parent		**64,436**	401,261
Non-controlling interests		**2,334**	1,978
		66,770	403,239
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted			
— For profit for the period (RMB)	9	**0.03**	0.16

Consolidated Interim Statement of Comprehensive Income

For the six months ended June 30, 2016

	Unaudited For the six months ended June 30, 2016 RMB'000	Unaudited For the six months ended June 30, 2015 RMB'000
Profit for the period	**66,770**	403,239
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(90,027)**	564
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(90,027)**	564
Other comprehensive income for the period, net of tax	**(90,027)**	564
Total comprehensive income for the period	**(23,257)**	403,803
Attributable to:		
Owners of the parent	**(25,591)**	401,825
Non-controlling interests	**2,334**	1,978
	(23,257)	403,803

Consolidated Interim Statement of Financial Position

June 30, 2016

	Notes	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,704,266**	3,697,075
Prepaid land lease payment		**638,884**	646,610
Intangible assets		**866,276**	882,855
Prepayments and deposits		**276,405**	256,730
Finance lease receivables		**8,852**	17,606
Goodwill		**75,674**	100,725
Derivate financial instruments		**14,632**	9,490
Investment in a joint venture		**53,629**	50,846
Available-for-sale investment		**16,956**	16,621
Deferred tax assets		**109,299**	78,454
Total non-current assets		**5,764,873**	5,757,012
CURRENT ASSETS			
Inventories	10	**3,164,545**	2,454,946
Trade receivables	11	**236,160**	358,159
Finance lease receivables		**26,815**	28,231
Prepayments, deposits and other receivables		**5,838,911**	5,449,306
Amounts due from related parties	19(a)	**40,835**	55,324
Equity investments at fair value through profit or loss		**22,431**	46,864
Derivative financial instruments		**12,657**	6,457
Pledged bank deposits		**1,361,106**	2,332,021
Cash in transit		**62,172**	78,224
Cash and cash equivalents		**1,110,686**	2,160,980
		11,876,318	12,970,512
Non-current asset classified as held for sale		**83,902**	83,902
Total current assets		**11,960,220**	13,054,414

Consolidated Interim Statement of Financial Position

June 30, 2016

	Notes	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	12	**3,914,608**	4,063,575
Trade and bills payables	13	**3,990,419**	3,945,184
Other payables and accruals		**582,924**	646,283
Income tax payable		**172,119**	168,795
		8,660,070	8,823,837
Long term interest-bearing bank borrowings current portion	12	**3,295,872**	4,217,361
Total current liabilities		**11,955,942**	13,041,198
Net current assets		**4,278**	13,216
Total assets less current liabilities		**5,769,151**	5,770,228
NON-CURRENT LIABILITIES			
Bonds	14	**461,936**	441,683
Other payables		**29,089**	30,472
Deferred tax liabilities		**328,927**	325,617
Total non-current liabilities		**819,952**	797,772
Net assets		**4,949,199**	4,972,456
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	**20,836**	20,836
Reserves		**4,888,503**	4,914,094
		4,909,339	4,934,930
Non-controlling interests		**39,860**	37,526
Total equity		**4,949,199**	4,972,456

Consolidated Interim Statement of Changes in Equity

For the six months ended June 30, 2016

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Other 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, 2015	**20,836**	**1,767,128**	**31,670**	**350,069**	**(58,327)**	**-**	**7,677**	**2,868,364**	**101,244**	**5,088,661**	**60,139**	**5,148,800**
Profit for the period	–	–	–	–	–	–	–	401,261	–	401,261	1,978	403,239
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	564	–	–	564	–	564
Total comprehensive income for the period	–	–	–	–	–	–	564	401,261	–	401,825	1,978	403,803
Final 2014 dividend declared	–	–	–	–	–	–	–	–	(101,244)	(101,244)	–	(101,244)
At June 30, 2015 (unaudited)	**20,836**	**1,767,128**	**31,670**	**350,069**	**(58,327)**	**-**	**8,241**	**3,269,625**	**-**	**5,389,242**	**62,117**	**5,451,359**
At January 1, 2016	**20,836**	**1,767,128**	**31,670**	**383,276**	**(58,327)**	**(3,744)**	**(261,160)**	**3,055,251**	**-**	**4,934,930**	**37,526**	**4,972,456**
Profit for the period	–	–	–	–	–	–	–	64,436	–	64,436	2,334	66,770
Other comprehensive income for the period:	–	–	–	–	–	–	–	–	–	–	–	–
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(90,027)	–	–	(90,027)	–	(90,027)
Total comprehensive income for the period	–	–	–	–	–	–	(90,027)	64,436	–	(25,591)	2,334	(23,257)
Release of share option reserve upon cancellation of share option scheme	–	–	(2,651)	–	–	2,651	–	–	–	–	–	–
At June 30, 2016 (unaudited)	**20,836**	**1,767,128**	**29,019**	**383,276**	**(58,327)**	**1,093**	**(351,187)**	**3,119,687**	**-**	**4,909,339**	**39,860**	**4,949,199**

Consolidated Interim Statement of Cash Flows

For the six months ended June 30, 2016

	Notes	**Unaudited For the six months ended June 30, 2016 RMB'000**	Unaudited For the six months ended June 30, 2015 RMB'000
Operating activities			
Profit before tax		**118,672**	542,663
Adjustments for:			
Share of profit of a joint venture		**(2,783)**	(2,915)
Share of profit of an associate		**–**	10,360
Depreciation of property, plant and equipment	5(c)	**164,263**	148,336
Amortisation of prepaid land lease payment	5(c)	**7,726**	4,943
Amortisation of intangible assets	5(c)	**19,447**	18,528
Net gain on deemed disposal of a subsidiary	4(b)	**–**	(16,016)
Fair value gain, net: derivative instruments	4(b)	**(11,341)**	–
Equity investments at fair value through profit or loss	4(b)	**15,516**	–
Gain on disposal of listed equity investment	4(b)	**(5,578)**	–
Write-down of inventories to net realisable value	5(c)	**46,683**	–
Interest income	4(b)	**(14,468)**	(15,308)
Net (gain)/loss on disposal of items of property, plant and equipment	4(b)	**(215)**	1,110
Net loss on disposal of items of intangible assets	4(b)	**1,325**	–
Impairment of goodwill	5(c)	**25,051**	–
Finance costs	6	**241,989**	269,632
		606,285	961,333
Decrease in pledged bank deposits		**970,915**	1,279,101
Decrease in cash in transit		**16,052**	75,431
Decrease in trade receivables		**121,999**	107,958
(Increase)/decrease in prepayments, deposits and other receivables		**(408,423)**	229,149
(Increase)/decrease in inventories		**(755,729)**	505,605
Increase/(decrease) in trade and bills payables		**45,052**	(2,371,109)
Decrease in other payables and accruals		**(84,802)**	(282,676)
Decrease/(increase) of finance lease receivables		**10,170**	(9,209)
Cash generated from operations		**521,519**	495,583
Income tax paid		**(49,844)**	(47,522)
Net cash generated from operating activities		**471,675**	448,061

Consolidated Interim Statement of Cash Flows

For the six months ended June 30, 2016

	Note	**Unaudited For the six months ended June 30, 2016 RMB'000**	Unaudited For the six months ended June 30, 2015 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(276,863)**	(353,340)
Proceeds from disposal of items of property, plant and equipment		**134,564**	123,146
Purchase of land lease payment		**–**	(3,490)
Purchase of intangible assets		**(768)**	520
Purchase of equity investments at fair value through profit or loss		**(100)**	–
Acquisition of subsidiaries, net of cash paid	17	**(9,718)**	–
Deemed Disposal of a subsidiary		**–**	(100,151)
Interest received		**14,468**	15,308
Net cash used in investing activities		**(138,417)**	(318,007)
Financing activities			
Proceeds from interesting-bearing bank and other borrowings		**5,362,290**	3,990,274
Repayment of interesting-bearing bank and other borrowings		**(6,482,032)**	(3,896,049)
Interest paid		**(232,205)**	(258,912)
Net cash used in financing activities		**(1,351,947)**	(164,687)
Net decrease in cash and cash equivalents		**(1,018,689)**	(34,633)
Cash and cash equivalents at the beginning of each period		**2,160,980**	2,202,892
Effect of foreign exchange rate changes, net		**(31,605)**	216
Cash and cash equivalents at the end of each period		**1,110,686**	2,168,475

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 of Hong Kong Limited on December 14, 2011.

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

On 11 December 2015, China Grand Automotive Services Co., Ltd. ("CGA") made a pre-conditional voluntary cash partial offer to acquire a maximum of 75% of the issued share capital of the Company. On 21 June 2016, CGA officially completed its offer.

In the opinion of the Directors, the ultimate holding company of the Company is CGA, which was incorporated in the People's Republic of China.

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, 2016 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, 2015, 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 30, 2016. 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 consolidated financial statements for the year ended December 31, 2015, except for the adoption of new standards and interpretations effective as of January 1, 2016, noted below.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2016.

Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Annual Improvements 2012–2014 Cycle	*Amendments to a number of HKFRSs*

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

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

2.2 Significant accounting policies *(Continued)*

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning on or after January 1, 2016 and have not been early adopted:

HKFRS 9	*Financial Instruments*[2]
HKFRS 15	*Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKFRS 2	*Classification and Measurement of the Share-based Payment Transaction*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after January 1, 2017
2 Effective for annual periods beginning on or after January 1, 2018
3 Effective for annual periods beginning on or after January 1, 2019
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.

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, 2016, 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, 2016 RMB'000	Unaudited For the six months ended June 30, 2015 RMB'000
(a) Revenue		
Revenue from the sale of motor vehicles	9,524,462	12,275,502
Finance leasing services	2,850	3,163
Revenue from after-sales services	1,344,089	1,758,675
	10,871,401	14,037,340
(b) Other income and gains, net		
Commission income	161,423	176,034
Interest income	14,468	15,308
Advertisement support received from motor vehicle manufacturers	698	3,215
Rental income	1,464	5,750
Government grants	9,222	3,752
Net gain/(loss) on disposal of items of property, plant and equipment	215	(1,110)
Net loss on disposal of items of intangible assets	(1,325)	–
Fair value gain, net: derivative instruments	11,341	–
Equity investments at fair value through profit or loss	(15,516)	–
Net gain on disposal of listed equity investments	5,578	–
Net gain on deemed disposal of a subsidiary	–	16,016
Others	2,551	2,824
	190,119	221,789

5. PROFIT BEFORE TAX

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

		Unaudited For the six months ended June 30, 2016 RMB'000	Unaudited For the six months ended June 30, 2015 RMB'000
(a)	**Employee benefit expense (including Directors' remuneration)**		
	Wages and salaries	**263,740**	188,878
	Other welfare	**81,519**	91,894
		345,259	280,772
(b)	**Cost of sales and services**		
	Cost of sales of motor vehicles	**9,188,114**	11,801,698
	Others	**726,460**	935,708
		9,914,574	12,737,406
(c)	**Other items**		
	Depreciation of property, plant and equipment	**164,263**	148,336
	Amortisation of prepaid land lease payment	**7,726**	4,943
	Lease expenses	**71,256**	82,294
	Advertisement and business promotion expenses	**62,522**	55,256
	Write-down of inventories to net realisable value	**46,683**	–
	Bank charges	**28,398**	31,777
	Amortisation of intangible assets	**19,447**	18,528
	Logistics and gasoline expenses	**20,953**	37,204
	Equity investments at fair value through profit or loss	**15,516**	–
	Foreign exchange difference, net	**12,398**	15,707
	Office expenses	**10,994**	9,976
	Auditors' remuneration	**3,400**	2,550
	Fair value gain, net: derivative instruments	**(11,341)**	–
	Impairment of goodwill	**25,051**	–

6. FINANCE COSTS

	Unaudited For the six months ended June 30, 2016 RMB'000	Unaudited For the six months ended June 30, 2015 RMB'000
Interest expense on bank borrowings wholly repayable within five years	**220,371**	275,482
Interest expense on other borrowings	**1,805**	566
Interest expense on factoring programs	**24,490**	–
Interest expense on bonds	**10,781**	10,048
Less: Interest capitalised	**(15,458)**	(16,464)
	241,989	269,632

7. INCOME TAX EXPENSE

	Unaudited For the six months ended June 30, 2016 RMB'000	Unaudited For the six months ended June 30, 2015 RMB'000
Current:		
Mainland China corporate income tax	**79,437**	143,724
Deferred tax	**(27,535)**	(4,300)
Total tax charge for the period	**51,902**	139,424

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, 2015: 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, 2015: 25%).

8. DIVIDENDS

The Board of the Company has resolved not to declare interim dividend for the six months ended June 30, 2016 (six months ended June 30, 2015: 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, 2016 and 2015, respectively.

No adjustment has been made to the basic earnings per share amounts presented in the six months ended June 30, 2016 and 2015 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, 2016	Unaudited For the six months ended June 30, 2015
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**64,435**	401,261
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)	**0.03**	0.16

10. INVENTORIES

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Motor vehicles	**2,849,834**	2,143,756
Spare parts and accessories	**314,711**	311,190
	3,164,545	2,454,946

11. TRADE RECEIVABLES

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Trade receivables	**236,160**	358,159

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, 2016 RMB'000	Audited December 31, 2015 RMB'000
Within 3 months	**186,330**	313,814
More than 3 months but less than 1 year	**49,830**	42,177
Over 1 year	**–**	2,168
	236,160	358,159

Trade receivables are non-interest-bearing.

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Unaudited As at June 30, 2016		
	Effective interest rate(%)	Maturity	RMB'000
Current			
Interest-bearing bank borrowings			
— Guaranteed	6.6	On demand	29,000
— Secured	4.4-5.2	2016	16,024
— Secured	1.5	2017	119,658
— Unsecured	2.7-5.9	2017	3,337,061
			3,501,743
Other Borrowings			
— Secured	12	2016	45,327
— Secured	8.9	2017	98,000
— Secured	7.5	2017	269,538
			412,865
			3,914,608
Long term interest-bearing bank borrowings — current portion			
Interest-bearing bank borrowings			
— Unsecured	Libor*+3.7	On demand	1,079,019
— Unsecured	Libor*+3.7	On demand	636,474
— Unsecured	Libor*+3.5	On demand	401,188
— Unsecured	Libor*+3.5	On demand	1,179,191
			3,295,872
			7,210,480

12. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	Audited As at December 31, 2015		
	Effective interest rate(%)	Maturity	RMB'000
Current			
Interest-bearing bank borrowings			
— Guaranteed	6.6	On demand	29,000
— Secured	2.7	2016	327,580
— Unsecured	Hibor**+3.4	2016	318,356
— Unsecured	1.6	2016	125,670
— Unsecured	1.9	2016	43,757
— Unsecured	4.4-6.7	2016	3,061,568
			3,905,931
Other Borrowings			
— Secured	5.3-7.8	2016	157,644
			4,063,575
Long term interest-bearing bank borrowings — current portion			
— Secured	Libor*+3.5	2016	324,941
— Unsecured	Libor*+3.7	2016	769,786
— Unsecured	Libor*+3.5	On demand	1,540,682
— Unsecured	Libor*+3.7	On demand	896,954
— Unsecured	Libor*+3.7	On demand	490,916
— Secured	Libor*+2.7	On demand	194,082
			4,217,361
			8,280,936

* London Inter-Bank Offered Rate

** Hong Kong Inter-Bank Offered Rate

12. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

As at June 30, 2016, long term bank borrowings with an aggregate carrying amount of approximately RMB1,815,665,000 that are repayable more than one year after the end of reporting period per loan agreements, with repayment on demand clause, have been classified as current liabilities as at June 30, 2016 in order to comply with the requirements set out in Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause as one repayment on demand clause stipulated in the loan contracts is triggered. On the date of August 23, 2016, the Company entered into a facility agreement in respect of syndicated term loan facilities in an amount of up to USD750 million which are available for drawdown for a period of three months from the date of the facility agreement and the loans made under the facility agreement shall be repaid within 36 months and 12 months from the first utilisation date of the loans for tranche A and tranche B, respectively. As a result of the successful re-financing activity, the current existing indebtedness could be covered and the Group could get abundant assets for the Group's operations in the future.

13. TRADE AND BILLS PAYABLES

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Trade payables	**182,396**	267,883
Bills payable	**3,808,023**	3,677,301
Trade and bill payables	**3,990,419**	3,945,184

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

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Within 3 months	**3,453,854**	3,658,491
3 to 6 months	**519,003**	266,919
6 to 12 months	**9,756**	1,402
Over 12 months	**7,806**	18,372
	3,990,419	3,945,184

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

14. BONDS

As at June 30, 2016, outstanding bonds are summarised as follows:

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Bonds	**461,936**	441,683

15. SHARE CAPITAL

	As at June 30, 2016 and December 31, 2015
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

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 became effective on 14 December 2011, unless otherwise cancelled or amended, will remain in force for ten 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 10% of the shares of the Company in issue as at the listing date. 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.

16. SHARE OPTION SCHEME *(Continued)*

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 of the 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; and (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.

	2016	
	Weighted average exercise price HK$ per share	**Number of options**
At 1 January	**5.724**	**15,550,000**
Cancelled during the period	**5.724**	**(11,662,464)**
Expired during the period	**5.724**	**(100,000)**
At 30 June	**5.724**	**3,787,536**

	2015	
	Weighted average exercise price HK$ per share	Number of options
At 1 January	5.724	15,550,000
At 31 December	5.724	15,550,000

CGA extended an appropriate offer to holders of the share options to cancel up to 11,662,500 outstanding share options pursuant to Rule 13 of the Hong Kong Code on Takeovers and Mergers (the "Option Offer"). A total number of 11,662,464 share options were cancelled under the Option Offer.

No share option was exercised during the period.

16. SHARE OPTION SCHEME *(Continued)*

The exercise period of the share options outstanding as at 30 June 2016 is from 4 September 2014 to 4 September 2016.

During the six months ended 30 June, 2016, no expense recognized in the statement of profit or loss for the Share Option Scheme (six months period ended 30 June, 2015: Nil).

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 Dandong Xinbaohang Auto Sales and Services Co., Ltd. (丹東信寶行汽車銷售有限公司, "Dandong Xinbaohang"), which is engaged in the motor vehicle sales and service business in Mainland China, from a third party on 8 Jan 2016 at a total consideration of RMB10,000,000.

The fair values of the identifiable assets and liabilities of Dandong Xinbaohang as at the date of acquisition were as follows:

	Fair values recognised on acquisition RMB'000
Property, plant and equipment	30,176
Intangible assets	2,100
Inventories	553
Prepayments, deposits and other receivables	1,930
Cash and cash equivalents	282
Trade and bills payables	(183)
Other payables and accruals	(24,858)
Total identifiable net assets	10,000
Total purchase consideration	10,000

An analysis of the cash flows in respect of the acquisition of Dandong Xinbaohang is as follows:

	RMB'000
Cash consideration paid	(10,000)
Cash and cash equivalents acquired	282
Net cash outflow	(9,718)

Since the acquisition, the acquired business contributed RMB19,773,000 to the Group's revenue and a loss of RMB1,517,000 to the consolidated profit for the year ended 30 June 2016.

18. COMMITMENTS

(a) Capital commitments

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

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Contracted, but not provided for land use rights and buildings	**133,750**	182,500
Authorised, but not contracted for land use rights and buildings	**150,000**	250,000
	283,750	432,500

(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, 2016			Audited At December 31, 2015		
	Properties RMB'000	**Land RMB'000**	**Vehicles RMB'000**	Properties RMB'000	Land RMB'000	Vehicles RMB'000
Within 1 year	**90,074**	**45,504**	**9,462**	92,398	57,310	8,924
After 1 year but within 5 years	**281,094**	**163,683**	**37,850**	265,516	163,568	35,635
After 5 years	**474,089**	**297,670**	**22,079**	305,704	534,688	30,438
	845,257	**506,857**	**69,391**	663,618	755,566	74,997

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

19. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Balances with related parties

The Group had the following significant balances with its related parties as at June 30, 2016:

Amounts due from related parties:

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Non-trade related:		
A joint venture		
— Shenyang Xinbaohang	**40,835**	40,835
An associate		
— Autostreets	**–**	14,127
The Controlling Shareholder		
— Mr. Yang Aihua	**–**	362
	40,835	55,324

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

	Unaudited For the six months ended June 30, 2016 RMB'000	Unaudited For the six months ended June 30, 2015 RMB'000
Short term employee benefits	**6,595**	8,481
Post-employee benefits	**344**	317
Total compensation paid to key management personnel	**6,939**	8,798

20. 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, 2016 RMB'000	December 31, 2015 RMB'000	**June 30, 2016 RMB'000**	December 31, 2015 RMB'000
Financial liabilities				
Bonds	**461,936**	441,683	**481,901**	461,497

Management has assessed that the fair values of cash and cash equivalents, cash in transit, pledged bank deposits, trade and bills 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 30 June 2016 was assessed to be insignificant.

20. 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 30 June 2016

	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	–	–	481,901	461,936

As at 31 December 2015

	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	–	–	461,497	461,497

21. EVENT AFTER THE REPORTING PERIOD

There is no significant event undertaken by the Company or by the Group after June 30, 2016.

BAOXIN AUTO GROUP LIMITED
寶信汽車集團有限公司