CHINA RUNDONG AUTO GROUP LIMITED
中國潤東汽車集團有限公司

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

Stock Code 股份代號：1365

2018 INTERIM REPORT
中期報告

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Yang Peng *(Chairman, executive Director and Chief Executive Officer of the Group)*
Mr. Zhao Zhongjie *(executive Director, Executive President of the Group) (resigned on 30 August 2018)*
Mr. Mei Jianping *(independent non-executive Director)*
Mr. Lee Conway Kong Wai *(independent non-executive Director)*
Mr. Xiao Zhengsan *(independent non-executive Director)*
Mr. Li Xin *(independent non-executive Director)*

AUDIT COMMITTEE

Mr. Lee Conway Kong Wai *(Chairman)*
Mr. Xiao Zhengsan
Mr. Li Xin

RISK MANAGEMENT COMMITTEE

Mr. Lee Conway Kong Wai *(Chairman)*
Mr. Xiao Zhengsan
Mr. Li Xin

REMUNERATION COMMITTEE

Mr. Mei Jianping *(Chairman)*
Mr. Yang Peng
Mr. Xiao Zhengsan
Mr. Li Xin

NOMINATION COMMITTEE

Mr. Yang Peng *(Chairman)*
Mr. Mei Jianping
Mr. Xiao Zhengsan
Mr. Li Xin

COMPANY SECRETARY

Ms. Mak Tze Fan

AUTHORIZED REPRESENTATIVES

Mr. Yang Peng *(appointed on 30 August 2018)*
Ms. Mak Tze Fan
Mr. Zhao Zhongjie *(resigned on 30 August 2018)*

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE IN THE PRC

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No. 567, West Tianshan Road, Changning District
Shanghai, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Service (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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Wanchai, Hong Kong

STOCK CODE

1365

WEBSITE

www.rundong.com.cn

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") and the management of China Rundong Auto Group Limited (the "**Company**"), I am pleased to present the interim report of the Company and its subsidiaries (collectively referred to as the "**Group**" or "**we**", "**us**", "**our**") for the six months ended 30 June 2018.

In the first half of 2018, the gross domestic product of China grew by 6.8% year-on-year, but slightly declined 0.1 percentage points as compared to the same period last year. The growth rate of total retail sales of consumption goods also slowed by 1 percentage point compared with the same period in 2017, mainly because the growth rate of total retail sales of automobile commodities dropped significantly in the second quarter, which pulled down the growth rate of total social consumption retail amounts. Affected by factors such as economy downturn, Sino-US trade disputes, tariff policies adjustments on imported cars, the domestic automobile sales market grew at a low rate in the first half of 2018. In particular, after years of rapid growth, the luxury brand vehicle market slowed down its growth trend. Affected by the foresaid factors, in the first half of 2018, the Group adopted more prudent operational strategies and corresponding measures, slowed down the pace of bulk purchase, and reduced inventory gradually. Meanwhile, the stores acquired by the Group in 2017 have been undergoing integration. The synergies of consolidation were not achieved as anticipated, which was due to, among others, the realignment in the overall organization structure, transitional changes of key management and staff relocation. Due to the aforesaid factors, the results of the Group reduced significantly.

With an aim of pushing ahead the advancement of the Group's operation and resuming the results as soon as practicable, the management, in addition to resolving the internal issues, formulated targeted improvement plan and implemented in a prompt manner. In terms of corporate governance, the structure of the Board is well established with due and diligent Directors, the responsibilities and obligation of the management are defined, and the operation of the Company is in compliance with strict business ethics standards. In addition, the Group commits to fulfilling social responsibilities and leading to the organic integration of social development, environmental protection, charities and corporate operation and value creation.

In the second half of 2018, facing the complex domestic and overseas economic condition and fierce market competition, the Group conformed to the market discipline, persistently promoted the business transformation, made great effort in developing after-sales services business while optimising the brand structure, focusing on automobile finance and insurance agency business, and changing the profitability structure. In terms of management, the Group adopted advanced strategies to improve its operation efficiency and strengthen its risk management.

On behalf of the Group, I would like to express my sincere gratitude to shareholders, customers and business partners for their consistent support and to all employees for their hard work. We will continue to strive to provide comprehensive premium services for customers, to offer a favorable development platform for all employees, and to bring greater value to shareholders.

Yang Peng
Chairman

30 August 2018

INDUSTRY REVIEW

Looking back at the first half of 2018, the domestic automobile sales market showed a slow growth trend. According to the semi-annual production and sales figures released by the China Association of Automobile Manufacturers, the production and sales of passenger vehicles reached 11.8537 million units and 11.7753 million units, respectively, representing a year-on-year increase of 3.23% and 4.64% respectively. The end market was growing at a low rate, due to the low market base in the same period last year, it reflects the downturn in the automotive consumption market. In terms of models, the growth rate of SUV, which is the main driving model for passenger vehicle sales growth, dropped significantly. In the first half of 2018, the growth rate of SUV reached 9.7%, which dropped significantly compared with that of 16.8% in the same period last year. Due to the adjustment of tariff policies, in the first half of 2018, automobile imports in China suffered a sharp drop. From January to June, the cumulative number of imported vehicles was 452,000 units, a year-on-year decrease of 22.1%. Affected by factors such as the tariff adjustments on imported vehicles, Sino-US trade disputes, and consumers' wait-and-see attitude, the inventory pressures on automobile dealers continued to increase. According to "China Automobile Dealers' Vehicle Inventory Alert Index" released by the China Automobile Dealers Association, the inventory alert index remained above the warning line for the whole period from January to June 2018. Due to the increased inventory pressure, end sales competition was heating up and price has been discounted at different level.

In the first half of 2018, luxury brand vehicles market in China presented a complex development trend due to the combination of internal and external economic environment, tariff adjustment, and Sino-US trade disputes. After years of rapid growth, although the luxury brand vehicles continued to grow in the first half of the year, compared with the same period of last year, the growth rate of sales of the top ten luxury brands [Note] vehicles decreased by 6.0 percentage points, and the overall upward trend has slowed down. Besides, the competition in the luxury brand vehicles market is still fierce. At the first level, the gap between Benz with Audi and BMW was gradually widening. In the first six months of this year, Benz and Smart increased by 14% year-on-year, winning the semi-annual sales champion of luxury brand vehicles market in China, exceeding the second winner of more than 40,000 units. Due to the low base in the same period last year, Audi still ranked second despite a year-on-year increase of 20.5%. BMW's performance was unsatisfactory, ranked third with a slight year-on-year increase of 2.2%. At the second level, in addition to Cadillac, which has a high degree of localization, maintained a strong rise, other brands were highly affected by tariff changes in May and June. Among which, Lexus decreased significantly by 12.9% year-on-year in June.

According to the figures released by the Traffic Management Bureau under the Ministry of Public Security, as of the end of June 2018, the automobile ownership in China has reached 229 million units. Such a large quantity will contribute to the rapid development of after-sales market business, including automobile maintenance, car insurance, and etc..

On 22 May 2018, the Customs Tariff Commission of the State Council issued an announcement to reduce the import tariffs on finished automobile and spare parts from 1 July 2018. Such reduction of automobile import tariffs is an initiative for China to further expand reform and opening up. This will promote the structural adjustment and transformation and upgrading of the automobile industry, and is in line with the trend of domestic consumption upgrades, and will guide the improvement of domestic automobile quality and increase the diversification of supply side.

In the first half of 2018, the Sino-US trade war continued to ferment, and the two sides imposed tariffs on each other. China's tariff on vehicles imported from the United States has increased to 40%. The Sino-US trade war will continue to affect the automotive industry in the future. However, in terms of the total amount, the increase in tariffs has a limited impact on the industry.

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

BUSINESS REVIEW

In the first half of 2018, affected by the slow growth of the overall passenger vehicles market in the PRC, the decline in sales growth rate of luxury brand vehicles, and the weak and insufficient demand for entry-level vehicles, the Group adopted a more prudent operational strategy and corresponding measures. The Group slowed down the pace of bulk purchase, gradually reduced inventory level and explored the best balance between business scale and new car profitability. The Group acquired a number of new entities as detailed in the 2017 annual report of the Company. Upon the completion of these acquisitions, these entities have been undergoing post acquisition integration. The aftermath synergies and combined results were yet to be crystalised for the six months ended 30 June 2018 as anticipated, which was due to, among others, the realignment in the overall organisation structure, transitional changes of key management and staff relocation of these entities. In view of the aforesaid factors, the results of the Group reduced significantly in the first half of 2018.

New Car Sales

In the first half of 2018, in the face of the sluggish automobile consumption market, the Group adopted a more prudent operating strategy, slowed down the pace of bulk purchase and committed to maintaining the profit of new car sales. In the first half of 2018, the overall gross profit margin of the Group's new vehicles was 2.8%, which was in line with the new car gross margin in the first half of 2017.

In the first half of 2018, the Group recorded a revenue of RMB6,478.8 million from new car sales, representing a year-on-year decrease of 20.9%, among which, luxury and ultra-luxury car sales revenue reached RMB4,951.6 million, representing a year-on-year decrease of 21.8%, and accounting for 76.4% of the new car sales revenue.

After-sales Services

In the first half of 2018, 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. For the six months ended 30 June 2018, revenue from our after-sales services amounted to RMB1,027.8 million, representing a year-on-year decrease of 6.7%, accounting for 13.7% of the Group's total revenue, the gross profit margin of after-sales service was 31.0%.

Value-added Business

Car value-added business, especially automobile finance and new auto insurance agency business, also were affected by the decline in sales volume of new vehicles. In the first half of 2018, the revenue derived from our finance agency services amounted to RMB59.5 million, representing a decrease of 30.1% compared with the same period of 2017. By designing new insurance products, the Group increased its penetration ratio of renewal of insurance. The revenue derived from the insurance agency business of the Group amounted to RMB82.7 million in the first half of 2018, which was generally in line with that of the same period of 2017.

Brand and Network Layout

In the first half of 2018, the Group constantly optimized its brand structure by optimizing stores based on prudent evaluation, the Company transferred 3 stores, including 1 Cadillac 4S store, 1 Shanghai-Volkswagen 4S store and 1 Hyundai 4S store.

As at 30 June 2018, the Group's automobile brand portfolio includes 9 luxury brands, namely BMW, MINI, Jaguar, Land Rover, Audi, Alfa Romeo, Lexus, Cadillac and Chrysler; 2 ultra-luxury brands, namely Maserati and Ferrari and 14 mid-to high-end brands, namely Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan, Zhengzhou Nissan, and FAW-Volkswagen.

As at 30 June 2018, the Group operated 85 stores, of which 62 were located in Jiangsu Province, 14 in Shandong Province, 6 in Shanghai, 1 in Zhejiang Province, 1 in Anhui Province and 1 in Liaoning Province.

As at 30 June 2018, the distribution of the Group's network of dealership stores was as follows:

	Brand	Number of stores
Luxury and ultra-luxury brands	Maserati and Ferrari	1
	Maserati and Alfa Romeo	4
	BMW and MINI	23
	Land Rover & Jaguar	7
	Audi	10
	Cadillac	1
	Lexus	1
	Chrysler	1
Mid- to high-end brands	Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan, Zhengzhou Nissan and FAW-Volkswagen	37
Total		85

Outlook and Strategy

Due to the increasing macroeconomic downturn, the insufficient consuming willingness and the high base of automobile sales market in the second half of last year, the pressure on new car sales market in the second half of 2018 will be further increased, and the uncertainty of Sino-US trade will also continue to affect the imported car market. Meanwhile, with the impact of steady growth of automobile ownership and increase in vehicle age, as well as emerging technologies and business models such as online platforms, the focus of the industry expansion will accelerate its shift to after-sales and value-added market. In terms of business segment, the second-hand car market will maintain a stable development trend, and the automobile financing business will show a great potential for development and will become a huge impetus for adjustment and transformation of the industry.

According to the analysis and judgment on the industry's overall trends and development potential, and based on our existing resources and operating conditions, the Group will continue to adjust brand structure and optimize management, and will emphasize on after-sales service and value-added business to further optimize business structures and enhance profitability.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, we recorded revenue of RMB7,506.5 million, representing a decrease of 19.2% compared to the same period in 2017, mainly due to the decrease in our revenue from new automobile sales.

The table below sets out the Group's revenue in the first half of 2018 and the first half of 2017.

Revenue Source	Unaudited For the six months ended 30 June 2018 Revenue (RMB'000)	Contribution (%)	Unaudited For six months ended 30 June 2017 Revenue (RMB'000)	Contribution (%)	1H2018 VS. 1H2017 Change (%)
New automobile sales	**6,478,768**	**86.3**	8,191,813	88.2	-20.9
After-sales service	**1,027,767**	**13.7**	1,101,092	11.8	-6.7
Total	**7,506,535**	**100**	9,292,905	100	-19.2

Revenue from the sales of automobiles decreased by RMB1,713.0 million, or 20.9% for the six months ended 30 June 2018 compared to the same period in 2017. Revenue generated from automobile sales accounted for 86.3% of our revenue for the six months ended 30 June 2018. Revenue generated from the sales of luxury and ultra-luxury brand and mid-to high-end brand vehicles accounted for 76.4% and 23.6% of our revenue from automobile sales respectively. Revenue from our after-sales service decreased by 6.7% from RMB1,101.1 million for the six months ended 30 June 2017 to RMB1,027.8 million for the same period in 2018.

Cost of sales and services

Our cost of sales and services decreased by RMB1,604.9 million from RMB8,612.5 million for the same period in 2017 to RMB7,007.6 million for the six months ended 30 June 2018.

The cost of our automobile sales business amounted to RMB6,298.1 million for the six months ended 30 June 2018, representing a decrease of RMB1,663.7 million, or 20.9%, from the corresponding period in 2017. The cost of our after-sales service amounted to RMB709.5 million for the six months ended 30 June 2018, representing an increase of RMB58.7 million, or 9.0%, from the corresponding period in 2017.

Gross profit and gross profit margin

Gross profit for the six months ended 30 June 2018 was RMB499.0 million, representing a decrease of RMB181.4 million, or 26.7%, from the same period in 2017. Gross profit from automobile sales decreased by 21.5% from RMB230.1 million for the six months ended 30 June 2017 to RMB180.7 million for the same period in 2018. Gross profit from after-sales service decreased by 29.3% from RMB450.3 million for the six months ended 30 June 2017 to RMB318.3 million for the same period in 2018. Automobile sales and after-sales service accounted for 36.2% and 63.8%, respectively, of our total gross profit.

Gross profit margin for the six months ended 30 June 2018 was 6.6%, lower than 7.3%, which was the gross profit margin for the same period in 2017. In which, the gross profit margin of automobile sales was 2.8%. Gross profit margin of after-sales service was 31.0%.

Other income and gains, net

Other income and gains, net increased by 109.8% from RMB192.5 million for the six months ended 30 June 2017 to RMB403.9 million for the corresponding period in 2018, mainly attributable to the income from transfer of 3 stores by the Group for the six months ended 30 June 2018; among which, commission income decreased by 16.0% from RMB176.2 million for the six months ended 30 June 2017 to RMB148.0 million for the corresponding period in 2018.

Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB223.8 million for the six months ended 30 June 2018, which was generally in line with that of the same period of 2017.

Administrative expenses

Administrative expenses of the Group amounted to RMB252.2 million for the six months ended 30 June 2018, representing an increase of 5.6% from RMB238.8 million for the same period of 2017, mainly due to the growth in staff salaries and daily operation expenditures resulting from acquisition of stores.

Financing cost

Financing cost amounted to RMB282.1 million for the six months ended 30 June 2018, representing an increase of 37.8% from RMB204.7 million of financing cost for the six months ended 30 June 2017, mainly due to the increase in financing cost in line with the increase in total financing amount resulting from acquisition of stores.

Operating profit

Operating profit of the Group amounted to RMB115.0 million for the six months ended 30 June 2018, representing a decrease of 42.9% from RMB201.3 million for the same period of 2017. Operating profit margin was 1.5%.

Income tax expenses

Income tax expenses of the Group amounted to RMB83.7 million for the six months ended 30 June 2018.

Profit for the period

The Group's profit for the six months ended 30 June 2018 amounted to RMB31.3 million. Net profit margin during the period was 0.4%.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 30 June 2018, our cash and cash equivalents amounted to RMB609.3 million, representing a decrease of 50.0% from RMB1,218.1 million as at 31 December 2017. This was mainly attributable to the repayment of other payables during the first half of 2018.

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

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

For the six months ended 30 June 2018, we had a net cash outflow from operating activities of RMB124.8 million (for the six months ended 30 June 2017: RMB177.7 million). We had a net inflow from investing activities of RMB134.5 million (for the six months ended 30 June 2017: net outflow of RMB488.2 million). We had a net cash outflow from financing activities of RMB582.4 million (for the six months ended 30 June 2017: net inflow of RMB159.1 million).

Net current liabilities

As at 30 June 2018, we had net current liabilities of RMB2,048.8 million, representing a decrease of RMB356.7 million from RMB2,405.5 million as at 31 December 2017. The decrease in the current liabilities was mainly due to the decrease in bill payables resulting from slowdown the pace of bulk purchase.

Capital expenditure

Our capital expenditures are primarily comprised expenditures on property, plant, equipment and intangible assets. For the six months ended 30 June 2018, our total capital expenditure was RMB104.4 million (for the six months ended 30 June 2017: RMB102.6 million).

Inventory

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

Our inventory decreased by 21.6% from RMB2,644.7 million as at 31 December 2017 to RMB2,072.9 million as at 30 June 2018, primarily due to the improvement of inventory management and acceleration of liquidation of inventories.

For the six months ended 30 June 2018, our average inventory turnover days increased to 60.6 days from 46.5 days in the same period in 2017.

Trade and bills receivables

Trade and bills receivables decreased from RMB413.9 million as at 31 December 2017 to RMB299.7 million as at 30 June 2018, primarily due to the Company's efforts in strengthening the control over receivables and speeding up payment collection.

Bank loans and other borrowings

As at 30 June 2018, the Group's available but unused banking facilities were RMB5,285.2 million (31 December 2017: RMB5,813.1 million).

Our bank loans and other borrowings as at 30 June 2018 were RMB6,988.7 million, representing a decrease of RMB501.1 million from RMB7,489.8 million as at 31 December 2017. The decrease was due to the increased utilization rate of funds.

Interest rate risk and foreign exchange risk

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

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

Gearing ratio

Our gearing ratio (defined as the aggregate of interest-bearing bank loans and other borrowings divided by shareholders' equity as at the end of each reporting period and then multiplied by 100%) as at 30 June 2018 was 190.9% (31 December 2017: 206.2%).

Human resources

As at 30 June 2018, the Group had 5,894 employees (30 June 2017: 5,045). Total staff costs for the six months ended 30 June 2018, excluding Directors' remuneration were RMB179.1 million (for the six months ended 30 June 2017: RMB168.3 million).

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

Contingent liabilities

As at 30 June 2018, we had no material contingent liability or guarantee other than the property defectives.

Pledge of the Group's assets

The Group pledged its assets as collaterals for bank loans, other borrowings and banking facilities which were used to finance daily business operation. As at 30 June 2018, the pledged assets of the Group amounted to RMB4,905.6 million.

Events after the Reporting Period

The potential acquisitions of the Group are still in progress and the completion of the acquisitions are subject to further negotiation of terms of contracts with the shareholders of parties and approvals from the relevant authorities.

CHANGES SINCE 31 DECEMBER 2017

Save as disclosed in this interim report, there were no other significant changes in the Group's financial position or the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2017.

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

As at 30 June 2018, the interests and short positions of the Directors and chief executives of the Company 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**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

INTEREST IN SHARES OR UNDERLYING SHARES OF OUR COMPANY

Name of Director/ Chief Executive	Nature of Interest	Number of Shares or underlying shares(1)	Approximate percentage of shareholding
Yang Peng(2)	Interest of controlled corporation, Beneficial owner	1,339,666,518(L)	141.54%
Zhao Zhongjie(3)	Beneficiary of a trust, Beneficial owner	2,968,638(L)	0.31%

Notes:

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

(2) Mr. Yang Peng as the protector of the Run Feng family trust is deemed to be interested in the shares held as he has the power to appoint and remove, and to amend the rights of, the trustee to the Run Feng family trust, currently being HSBC International Trustee Limited. Mr. Yang Peng is (a) beneficially interested in 7,379,771 management subscription shares pursuant to the Management Subscription; and (b) interested in 668,018,000 ordinary shares and 664,268,747 convertible preference shares, as he is deemed to be interested in the same number of ordinary shares and convertible preference shares in which Rundong Fortune Investment Limited is interested under the SFO.

(3) Mr. Zhao Zhongjie is beneficially interested in (a) 1,547,560 management subscription shares and (b) 1,421,078 ordinary shares as a beneficiary of the trust. The ordinary shares were held by Runda (PTC) Limited, a private trust company incorporated under the laws of the British Virgin Islands and one of the shareholders of the Company. Runda (PTC) Limited is a trustee of China Auto Retail Holding Group Ltd Option Trust, a discretionary trust under which Mr. Zhao Zhongjie is an eligible beneficiary. He resigned as an executive Director on 30 August 2018.

Save as disclosed above, as at 30 June 2018, none of the Directors and the chief executives of the Company 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS DISCLOSEABLE UNDER THE SFO

As at 30 June 2018, 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 below) who 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 of Shareholder	Nature of Interest	Number of Shares[(1)]	Approximate percentage of shareholding interest
Rundong Fortune Investment Limited[(2)]	Beneficial owner	1,332,286,747(L)	140.76%
Cheerful Autumn Holdings Limited[(2)]	Interest in controlled corporation	1,332,286,747(L)	140.76%
Rue Feng Holdings Limited[(2)]	Interest in controlled corporation	1,332,286,747(L)	140.76%
HSBC International Trustee Limited[(2)]	Trustee	1,332,286,747(L)	140.76%
Central Huijin Investment Ltd.[(3)]	Person having a security interest	352,963,987(L)	37.29%
China Construction Bank Corporation[(3)]	Person having a security interest	352,963,987(L)	37.29%
LanHai International Trading Limited[(4)]	Person having a security interest	848,270,747(L)	89.62%
Lanhai Holding (Group) Company Limited[(4)]	Person having a security interest	848,270,747(L)	89.62%
Mi Chunlei (密春雷)[(4)]	Person having a security interest	848,270,747(L)	89.62%
OCI International Holdings Limited[(5)]	Person having a security interest	78,000,000(L)	8.24%

Notes:

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

(2) Rundong Fortune Investment Limited is the wholly-owned subsidiary of Cheerful Autumn Holdings Limited, which is wholly-owned by Rue Feng Holdings Limited, which in turn is legally owned by the trustee to the Run Feng family trust (being HSBC International Trustee Limited as at the date of this interim report) for the benefit of the beneficiaries of the Run Feng family trust. Mr. Yang Peng, being the protector of the Run Feng family trust, has the power to appoint and remove, and to amend the rights of, the trustee to the Run Feng family trust.

(3) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of Cheer Hope Holdings Limited, which is wholly controlled by CCBI Investments Limited, which is wholly controlled by CCB International (Holdings) Limited, which is wholly controlled by CCB Financial Holdings Limited, which is wholly controlled by CCB International Group Holdings Limited, which is wholly controlled by China Construction Bank Corporation, which is in turn 57.11% controlled by Central Huijin Investment Ltd.

(4) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of LanHai International Trading Limited, which is wholly controlled by Lanhai Holding (Group) Company Limited, which is in turn 99% controlled by Mr. Mi Chunlei (密春雷).

(5) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of OCI International Holdings Limited.

Save as disclosed above, as at 30 June 2018, the Company was not aware of any person (who are not Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be registered pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

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

For the six months ended 30 June 2018, save as disclosed in the "Management Discussion and Analysis" of this interim report, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the principles and code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 2018, the Company has fully complied with the code provisions set out in the CG Code, except for the deviation from code provision A.2.1:

Code Provision A.2.1

This code provision provides that the roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual. The Company has appointed Mr. Yang Peng as both the Chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the Chairman and the chief executive officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors. The Board shall review the structure and composition of the Board from time to time in light of prevailing circumstances to maintain a high standard of corporate governance practices of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code 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 for the six months ended 30 June 2018.

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

AUDIT COMMITTEE REVIEW

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

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018, and is of the opinion that the preparation of such interim financial statements complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

BOARD COMPOSITION

The following changes were made to the composition of the Board during the six months ended 30 June 2018 and up to the date of this interim report:

On 28 March 2018, Mr. Liu Jian resigned as an executive Director and vice president of the Company and ceased to act as an authorized representative of the Company under Rule 3.05 of the Listing Rules.

Since 28 March 2018, Mr. Zhao Zhongjie, an executive Director, together with Ms. Mak Tze Fan, the company secretary, have acted as the authorized representatives of the Company under Rule 3.05 of the Listing Rules.

Subsequently, on 30 August 2018, Mr. Zhao Zhongjie resigned as an executive Director and the executive president of the Company.

Mr. Zhao Zhongjie has also ceased to act as an authorised representative of the Company under Rule 3.05 of the Listing Rules and Mr. Yang Peng, an executive Director, has acted as an authorised representative of the Company under Rule 3.05 of the Listing Rules with effect from 30 August 2018.

INTERIM DIVIDEND

The Board resolved not to declare any payment of an interim dividend to the shareholders of the Company for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).

PRE-IPO SHARE OPTION SCHEME

In recognition of the contributions of certain Directors, senior management and employees of our Group to the growth and development of business and the listing of the Group, our Group has implemented a share option scheme on 27 September 2011 (the "**Pre-IPO Share Option Scheme**"). For more information, please refer to the section headed "History and Reorganization – Establishment of the Employee Pre-IPO Trust" of the prospectus of the Company.

The details of the change in the Pre-IPO Share Option Scheme for the six months ended 30 June 2018 are as follows:

				Number of share options						
Type of participant	Date of grant	Exercise period	Vesting period	Exercise price per Share	Outstanding as at 1 January 2018	Granted during the period	Lapsed/ forfeited during the period	Exercised during the period	Expired during the period	Outstanding as at 30 June 2018
Employees	15 November 2011	Note 1	Note 2	US$0.3573	4,701,712	10,751	603,818	–	–	5,039,115

Note 1: Each grantee to whom a share option has been granted shall be entitled to exercise his/her share option in such manner as set out below:

Exercise date	Maximum cumulative percentage of the vested share options exercised
The date after the first anniversary of the listing date but before the second anniversary of the listing date	30%
The date after the second anniversary of the listing date but before the third anniversary of the listing date	60%
The date after the third anniversary of the listing date but before the fourth anniversary of the listing date	80%
The date after the fourth anniversary of the listing date	100%

The listing date of the Company was 12 August 2014.

Note 2: The Pre-IPO Share Options shall be vested in accordance with the following schedule (the "**Vesting Date**"):

i. if a grantee is employed on or before 31 December 2011, the Vesting Date shall be March 31 of every year commencing 2012;

ii. if a grantee is employed from 1 January 2012 to 31 December 2012, the Vesting Date shall be March 31 of every year commencing 2013; and

iii. if a grantee is employed from 1 January 2013 to 31 December 2013, the Vesting Date shall be March 31 of every year commencing 2014.

After the expiry of the duration of the Pre-IPO Share Option Scheme, no further Pre-IPO Share Options shall be offered but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in force. The Pre-IPO Share Options (to the extent not already exercised) granted prior to such expiry shall continue to be valid and exercisable until 15 November 2021.

During the six months ended 30 June 2018 and up to the date of this interim report, no share option under the Pre-IPO Share Option Scheme was granted or exercised.

Management Subscription

To provide incentives to the Directors and the senior management of the Group who are regarded as valuable human resources of the Group to continuously drive the growth of the Group's businesses, On 16 May 2015, the Company entered into a Management Subscription Agreement with each of the Management Subscribers (i.e. a number of senior management members of the Group) and the Connected Management Subscribers (i.e. Directors), the Company conditionally agreed to allot and issue and the Management Subscribers and Connected Management Subscribers conditionally agreed to subscribe for, a total of 80,537,237 Management Subscription Shares at the price of HK$2.89 each pursuant to the terms and conditions of the Management Subscription Agreements. The 80,537,237 Management Subscription Shares represent (a) 8.5% of the issued ordinary shares of the Company as at 30 June 2018; and (b) 4.8% of the issued ordinary shares as enlarged by the Subscription Ordinary Shares, the Conversion Shares and the Management Subscription Shares. Please refer to the circular of the Company dated 13 July 2015 for more information and the terms used herein shall have the meanings as defined in such circular.

The completion of the Management Subscriptions with respect to each of the Management Subscribers and Connected Management Subscribers will take place in four installments (the "**Installment Completion**") in the following manner:

Time of Installment Completion	Percentage of the aggregate number of Management Subscription Shares agreed to be issued to the relevant subscriber (%)
First anniversary of the date of completion of the Subscription Agreement	30
Second anniversary of the date of completion of the Subscription Agreement	30
Third anniversary of the date of completion of the Subscription Agreement	20
Fourth anniversary of the date of completion of the Subscription Agreement	20

In addition to the Management Subscription Conditions, each Installment Completion with respect to each of the Management Subscribers and Connected Management Subscribers is also conditional upon the fulfillment of the following conditions:

(a) the revenue and net profit of the Group for the financial year immediately preceding each Installment Completion are not less than the revenue and net profit of the Group for the financial year ended 31 December 2014, respectively;

(b) the relevant Management Subscriber or Connected Management Subscriber having achieved the performance target for the relevant financial year of the Company set by the Board specifically with respect to such subscriber (the "**Relevant Performance Target**"), subject to the following adjustments:

    i. if the relevant Management Subscriber or Connected Management Subscriber achieves 70% of his Relevant Performance Target before the relevant Installment Completion, the number of Management Subscription Shares that he is entitled to subscribe for at such Installment Completion shall be 70%;

    ii. if the relevant Management Subscriber or Connected Management Subscriber achieves between 70% to 100% of his Relevant Performance Target before the relevant Installment Completion, the number of Management Subscription Shares that he is entitled to subscribe for at such Installment Completion shall be adjusted proportionally (up to 100%); and

    iii. if the relevant Management Subscriber or Connected Management Subscriber achieves below 70% of his Relevant Performance Target, the Management Subscription Shares that he is entitled to subscribe for at such Installment Completion shall be cancelled;

(c) the relevant Management Subscriber or Connected Management Subscriber having remained as an employee of the Group; and

(d) compliance with the Public Float Requirement by the Company and the voting rights of Rundong Fortune Investment Limited in the Company not falling from above 30% to below 30% at the relevant Installment Completion; otherwise the relevant Installment Completion will need to be postponed until these two conditions can be met.

Each Management Subscription Agreement shall be terminated, among other grounds, (a) upon mutual termination by the parties to the agreement; or (b) if the Management Subscription Conditions have not been satisfied within 12 months from the date of the relevant Management Subscription Agreement.

As the subscription conditions were not fulfilled in 2015, 2016 and 2017, the management failed to subscribe for 80% of shares in total in the first three years. Please see the table below for details:

	Total subscription number (shares)	Number of shares unfulfilled subscription conditions and cancelled (shares)	Remaining subscription number (shares)
Yang Peng	36,898,851	29,519,080	7,379,771
Liu Dongli[note 1]	7,737,800	7,737,800	–
Zhao Zhongjie	7,737,800	6,190,240	1,547,560
Liu Jian[note 2]	4,855,600	4,855,600	–
Yan Sujian[note 1]	4,418,186	4,418,186	–
Zhu Lidong[note 3]	3,477,800	3,477,800	–
Jiang Xiaofei[note 1]	3,077,800	3,077,800	–
Zhao Ruoxu	4,077,800	3,262,240	815,560
Zhou Jian[note 1]	4,777,800	4,777,800	–
Lee Nan-Ping[note 4]	3,477,800	3,477,800	–
Total	80,537,237	10,714,010	9,742,891

Notes: 1. Mr. Liu Dongli, Mr. Yan Sujian, Mr. Jiang Xiaofei and Mr. Zhou Jian resigned in 2017.
2. Mr. Liu Jian resigned in 2018.
3. Mr. Zhu Lidong resigned in 2016.
4. Mr. Lee Nan-Ping resigned in 2015.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Notes	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)
REVENUE	4(a)	**7,506,535**	9,292,905
Cost of sales	5(b)	**(7,007,576)**	(8,612,503)
Gross profit		**498,959**	680,402
Other income and gains, net	4(b)	**403,866**	192,495
Selling and distribution costs		**(223,794)**	(221,263)
Administrative expenses		**(252,229)**	(238,845)
Other expenses		**(29,697)**	(6,702)
Finance costs	6	**(282,056)**	(204,743)
Profit before tax	5	**115,049**	201,344
Income tax expense	7	**(83,725)**	(76,142)
Profit for the period		**31,324**	125,202
Profit for the period attributable to:			
Owners of the parent		**32,960**	125,202
Non-controlling interests		**(1,636)**	–
		31,324	125,202
Earnings per share attributable to ordinary equity holders of the parent:			
Basic (RMB)	8	**0.03**	0.13
Diluted (RMB)	8	**0.02**	0.08

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**31,324**	125,202
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	(3,400)
Income tax effect	**–**	850
	–	(2,550)
Exchange differences on translation of foreign operations	**(1,555)**	997
Net other comprehensive(loss)/income: to be reclassified to profit or loss in subsequent periods	**(1,555)**	(1,553)
Other comprehensive income for the period, net of tax	**(1,555)**	(1,553)
Total comprehensive income for the period, net of tax	**29,769**	123,649
Total comprehensive income for the period attributable to:		
Owners of the parent	**31,405**	123,649
Non-controlling interests	**(1,636)**	–
	29,769	123,649

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**3,567,027**	3,828,489
Land use rights	10	**700,760**	755,420
Other intangible assets		**553,372**	573,554
Deferred tax assets		**1,726**	1,510
Goodwill		**1,358,066**	1,358,066
Available-for-sale investments	11	**–**	59,680
Equity instruments at fair value through other comprehensive income	11	**59,680**	–
Prepayments	12	**309,209**	309,209
Finance lease receivables		**197**	779
Total non-current assets		**6,550,037**	6,886,707
CURRENT ASSETS			
Inventories	13	**2,072,918**	2,644,686
Trade receivables	14	**299,678**	413,904
Finance lease receivables		**4,203**	5,138
Prepayments, deposits and other receivables	15	**3,805,028**	4,197,784
Cash in transit		**39,012**	23,144
Pledged bank deposits		**2,132,625**	3,016,625
Cash and cash equivalents		**609,258**	1,218,141
		8,962,722	11,519,422
Assets of a disposal group classified as held for sale	25	**222,027**	–
Total current assets		**9,184,749**	11,519,422
TOTAL ASSETS		**15,734,786**	18,406,129
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	**644,485**	647,953
Deferred tax liabilities		**195,241**	201,511
Total non-current liabilities		**839,726**	849,464
CURRENT LIABILITIES			
Trade and bills payables	17	**2,359,669**	4,294,374
Other payables and accruals	18	**1,865,076**	2,338,919
Amounts due to a related party	23	**276,465**	226,397
Interest-bearing bank and other borrowings	16	**6,344,220**	6,841,828
Income tax payable		**267,990**	223,390
		11,113,420	13,924,908
Liabilities directly associated with the assets classified as held for sale	25	**120,086**	–
Total current liabilities		**11,233,506**	13,924,908
NET CURRENT LIABILITIES		**(2,048,757)**	(2,405,486)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,501,280**	4,481,221
EQUITY			
Equity attributable to owners of the parent			
Share capital	20	**5**	5
Reserves		**3,653,132**	3,621,699
		3,653,137	3,621,704
Non-controlling interests		**8,417**	10,053
Total equity		**3,661,554**	3,631,757
TOTAL EQUITY AND LIABILITIES		**15,734,786**	18,406,129

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Share option reserve RMB'000 (note 26)	Statutory reserve RMB'000	Other reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000 (note 11)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	5	2,026,648	522,797	8,571	214,681	(30,603)	32,475	(13,311)	627,653	3,388,916	27,177	3,416,093
Profit for the period	–	–	–	–	–	–	–	–	125,202	125,202	–	125,202
Other comprehensive income/(loss) for the period:												
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(2,550)	–	–	(2,550)	–	(2,550)
Exchange differences related to foreign operations	–	–	–	–	–	–	–	997	–	997	–	997
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	(2,550)	997	125,202	123,649	–	123,649
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	(27,177)	(27,177)
Transfer from retained earnings	–	–	–	–	14,133	–	–	–	(14,133)	–	–	–
Equity-settled share option arrangements	–	–	–	218	–	–	–	–	–	218	–	218
At 30 June 2017	5	2,026,648	522,797	8,789	228,814	(30,603)	29,925	(12,314)	738,722	3,512,783	–	3,512,783
At 1 January 2018	5	2,026,648	522,797	8,861	269,541	(30,603)	–	(9,338)	833,793	3,621,704	10,053	3,631,757
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,960**	**32,960**	**(1,636)**	**31,324**
Other comprehensive loss for the period:												
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,555)**	**–**	**(1,555)**	**–**	**(1,555)**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,555)**	**32,960**	**31,405**	**(1,636)**	**29,769**
Transfer from retained earnings	**–**	**–**	**–**	**–**	**20,578**	**–**	**–**	**–**	**(20,578)**	**–**	**–**	**–**
Equity-settled share option arrangements	**–**	**–**	**–**	**28**	**–**	**–**	**–**	**–**	**–**	**28**	**–**	**28**
At 30 June 2018	**5**	**2,026,648***	**522,797***	**8,889***	**290,119***	**(30,603)***	**–***	**(10,893)***	**846,175***	**3,653,137**	**8,417**	**3,661,554**

* These reserve accounts comprise the consolidated reserves of RMB3,653,132,000 (unaudited) in the consolidated statement of financial position as at 30 June 2018.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)
Operating activities			
Profit before tax		**115,049**	201,344
Adjustments for:			
Depreciation	*5(c)*	**150,978**	118,116
Amortisation of land use rights	*5(c)*	**10,776**	6,463
Amortisation of intangible assets	*5(c)*	**20,960**	16,228
Finance costs	*6*	**282,056**	204,743
Interest income	*4(b)*	**(14,273)**	(8,766)
Loss on disposal of items of property, plant and equipment	*5(c)*	**4,136**	3,280
Equity-settled share option expense	*26*	**28**	218
Net (gain)/loss on disposal of subsidiaries	*4(b)/5(c)/24*	**(227,881)**	1,545
Decrease/(Increase) in inventories		**478,212**	(115,539)
Decrease in trade receivables		**108,978**	80,722
Decrease/(Increase) in prepayments, deposits and other receivables		**300,900**	(31,305)
Decrease in pledged bank deposits		**366,307**	284,157
Increase in cash in transit		**(16,055)**	(4,837)
Decrease in trade and bills payables		**(1,842,038)**	(403,654)
Increase/(Decrease) in other payables and accruals		**178,542**	(388,924)
		(83,325)	(36,209)
Income taxes paid		**(41,481)**	(141,472)
Net cash flows used in operating activities		**(124,806)**	(177,681)
Investing activities			
Purchase of items of property, plant and equipment		**(104,417)**	(138,874)
Proceeds from disposal of items of property, plant and equipment		**34,161**	30,887
Proceeds from disposal of subsidiaries	*24*	**200,484**	7,297
Purchase of intangible assets		**(935)**	(26)
Interest received		**5,244**	8,766
Purchases of available-for-sale investments		**–**	(4,000)
Prepayment for potential acquisitions, net		**–**	(300,000)
Increase in prepayments, deposits and other receivables		**–**	(92,200)
Net cash flows from/(used in) investing activities		**134,537**	(488,150)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Financing activities		
Proceeds from interest-bearing bank and other borrowings	**6,209,264**	6,349,450
Repayment of interest-bearing bank and other borrowings	**(6,651,822)**	(6,494,125)
Interest paid	**(282,056)**	(204,743)
Increase in amounts due to a related party	**70,888**	4,285
(Decrease)/Increase in long-term payable	**(427,200)**	427,200
Decrease in pledged bank deposits	**498,523**	77,011
Net cash flows (used in)/from financing activities	**(582,403)**	159,078
Net decrease in cash and cash equivalents	**(572,672)**	(506,753)
Net foreign exchange differences	**(1,555)**	997
Cash and cash equivalents at beginning of period	**1,218,141**	1,238,962
Cash and cash equivalents at end of period	**643,914**	733,206
Analysis of balances of cash and cash equivalents at end of period		
Cash and cash equivalents as stated in the statement of financial position	**609,258**	733,206
Cash and cash equivalents included in a disposal group classified as held for sale	**34,656**	–
Cash and cash equivalents as stated in the statement of cash flows	**643,914**	733,206

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements, which comprise the interim condensed consolidated statements of financial position of the Group as at 30 June 2018 and the related interim condensed consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

As at 30 June 2018, the Group had net current liabilities of approximately RMB2,048,757,000. The directors of the Company (the "**Directors**") believe that the Group has sufficient cash flows from the operations and current available banking facilities to meet its liabilities as and when they fall due. Therefore, the interim condensed consolidated financial statements are prepared on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2017, except for the adoption of amendments effective as of 1 January 2018 below:

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customer*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments. As required by HKAS 34, the nature and effect of these changes are disclosed below.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The effect of adopting HKFRS 15 is as follows:

i. The comparative information for each of the primary financial statements would be presented based on the requirements of HKAS 11, HKAS 18 and related Interpretations and;

ii. As required for the interim condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 4 for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes to the financial statements would also follow the requirements of HKAS 11, HKAS 18 and related Interpretations. As a result, the disclosure of disaggregated revenue in note 4 would not include comparative information under HKFRS 15.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has not restated comparative information for financial instruments in the scope of HKFRS 9. Therefore, the comparative information is reported under HKAS 39 and is not comparable to the information presented for the six months ended 30 June 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in reserves as of 1 January 2018.

Changes to classification and measurement

To determine their classification and measurement category, HKFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The HKAS 39 measurement categories of financial assets, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments have been replaced by:

i. Debt instruments at amortised cost;

ii. Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;

iii. Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition; and

iv. Financial assets at fair value through profit or loss.

The accounting for financial liabilities remains largely the same as it was under HKAS 39.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

As of 1 January 2018, the category of loans and receivables under HKAS 39, including cash and cash equivalents, restricted and time deposits, trade and notes receivables, financial assets included in prepayments, deposits and other receivables and due from related parties, were transferred to debt instruments at amortised cost under HKFRS 9. Available-for-sale investments under HKAS 39 were transferred to equity instruments at fair value through other comprehensive income under HKFRS 9.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Changes to the impairment calculation

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. The Group applies the general approach of financial assets included in prepayments, deposits and other receivables and amounts due from related parties.

All the other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

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

3. SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from the sale of motor vehicles	**6,478,768**	8,191,813
Revenue from after-sales services	**1,027,767**	1,101,092
	7,506,535	9,292,905

With the adoption of HKFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers, including sales of motor vehicles and after-sales services above is as follows:

Type of goods or services:		
Sale of motor vehicles and revenue from contracts with customers	**6,478,768**	8,191,813
Sale of after-sales services and revenue from contracts with customers	**1,027,767**	1,101,092
	7,506,535	9,292,905
Timing of revenue recognition:		
Goods transferred at a point in time and revenue from contracts with customers	**6,478,768**	8,191,813
Services completed at a point in time and revenue from contracts with customers	**1,027,767**	1,101,092
	7,506,535	9,292,905

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 June 2018 is included in note 3.

(b) Other income and gains, net

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Commission income	**147,981**	176,220
Bank interest income	**14,273**	8,766
Rental income	**1,922**	1,488
Government grants	**2,938**	1,440
Gain on disposal of subsidiaries	**227,881**	–
Others	**8,871**	4,581
	403,866	192,495

5. PROFIT BEFORE TAX

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

		For the six months ended 30 June	
		2018	2017
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	Employee benefit expense (excluding directors' and chief executive's remuneration):		
	Wages and salaries	**106,873**	103,677
	Equity-settled share option expense	**28**	218
	Other welfare	**72,161**	64,467
		179,062	168,362
(b)	Cost of sales and services:		
	Cost of sales of motor vehicles	**6,298,073**	7,961,739
	Cost of after-sales services	**709,503**	650,764
		7,007,576	8,612,503
(c)	Other items:		
	Depreciation of items of property, plant and equipment	**150,978**	118,116
	Amortisation of land use rights	**10,776**	6,463
	Amortisation of intangible assets	**20,960**	16,228
	Advertisement and business promotion expenses	**23,838**	26,861
	Write-down/(reversal of write-down) of inventories to net realisable value	**201**	(5,942)
	Net loss on disposal of a subsidiary	**–**	1,545
	Lease expenses	**29,409**	25,033
	Bank charges	**5,459**	6,940
	Loss on disposal of items of property, plant and equipment	**4,136**	3,280

6. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings wholly repayable within five years	**218,744**	139,437
Interest expense on other borrowings	**63,381**	65,323
Less: interest capitalised	**69**	17
	282,056	204,743

7. TAX

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Mainland China corporate income tax	**90,211**	80,732
Deferred tax	**(6,486)**	(4,590)
Total tax charge for the period	**83,725**	76,142

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

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

The subsidiaries incorporated in Hong Kong are subject to profits tax at the rate of 16.5% (six months ended 30 June 2017: 16.5%) during the period. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period.

According to the Corporate Income Tax Law of the People's Republic of China, the income tax rate was 25% (six months ended 30 June 2017: 25%) during the period.

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average 946,476,000 of ordinary shares in issue during the six months ended 30 June 2018 (946,476,000 ordinary shares during the six months ended 30 June 2017).

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

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation	**32,960**	125,202

	Number of shares For the six months ended 30 June	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**946,476,000**	946,476,000
Effect of dilution – weighted average number of ordinary shares:		
Convertible preference shares	**664,268,747**	664,268,747
Share options	**690,219**	1,640,628
	1,611,434,966	1,612,385,375
Earnings per share		
Basic (RMB)	**0.03**	0.13
Diluted (RMB)	**0.02**	0.08

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2018, the Group acquired assets at a consideration of RMB89,773,000 (unaudited) (for the six months ended 30 June 2017: RMB102,549,000 (unaudited)).

Assets with a net book value of RMB160,315,000 (unaudited) were disposed of by the Group during the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB48,137,000 (unaudited)).

Certain of the Group's buildings with aggregate net book values of approximately RMB628,573,000 (unaudited) and RMB682,249,200, respectively, as at 30 June 2018 and 31 December 2017 were pledged as security for the Group's interest-bearing bank and other borrowings.

Certain of the Group's buildings with aggregate net book values of RMB29,783,000 (unaudited) and RMB30,458,000, as at 30 June 2018 and 31 December 2017, respectively, do not have building ownership certificates because they were built on land where the Group did not have the land use right certificates. Notwithstanding this, the Directors are of the opinion that the Group owned the beneficial titles to these buildings as at 30 June 2018 and 31 December 2017, respectively.

10. LAND USE RIGHTS

No land use rights were acquired during both the six months ended 30 June 2017 and 2018.

Assets with a net book value of RMB24,163,000 (unaudited) were disposed of by the Group during the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB9,816,000 (unaudited)).

Certain of the Group's land use rights with aggregate net book values of approximately RMB269,331,000 (unaudited) and RMB269,331,000, respectively, as at 30 June 2018 and 31 December 2017 were pledged as security for the Group's interest-bearing bank and other borrowings.

Certain of the Group's land use rights are rights with aggregate net book values of RMB24,529,000 (unaudited) and RMB25,131,000, respectively, as at 30 June 2018 and 31 December 2017, of which the Group had not obtained the land use right certificates. Notwithstanding this, the Directors are of the opinion that the Group owned the beneficial titles to these land use rights as at 30 June 2018 and 31 December 2017, respectively.

Included in the Group's land use rights are rights to certain parcels of land, with aggregate net book values of RMB69,053,000 (unaudited) and RMB69,662,000, respectively, as at 30 June 2018 and 31 December 2017, which the Group did not use for their designated usage. Under applicable PRC laws and regulations, government approval is required for land use rights holders to change the designated usage for the land. Notwithstanding this, the Directors are of the opinion that the Group owned the beneficial titles to these land use rights as at 30 June 2018 and 31 December 2017, respectively.

11. FINANCIAL INVESTMENTS

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Available-for-sale investments		
Xuzhou Huaihai Nongcun Commercial Bank Company Limited	**–**	40,000
Tongshanxian Nongcun Credit Cooperation Association	**–**	9,000
GaoJing Network Technology Shanghai Limited	**–**	8,000
Yangzhou Nongcun Commercial Bank Company Limited	**–**	2,680
	–	59,680
Equity instruments at fair value through other comprehensive income		
Xuzhou Huaihai Nongcun Commercial Bank Company Limited	**40,000**	–
Tongshanxian Nongcun Credit Cooperation Association	**9,000**	–
GaoJing Network Technology Shanghai Limited	**8,000**	–
Yangzhou Nongcun Commercial Bank Company Limited	**2,680**	–
	59,680	–
	59,680	59,680

As at 1 January 2018, available-for-sale investments under HKAS 39 were transferred to equity instruments at fair value through other comprehensive income under HKFRS 9 (note 2.2).

12. PREPAYMENTS

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Prepayments for potential acquisitions	**300,000**	300,000
Prepayments for land use rights	**9,209**	9,209
	309,209	309,209

13. INVENTORIES

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Motor vehicles	**1,846,773**	2,377,114
Spare parts and accessories	**238,455**	279,681
	2,085,228	2,656,795
Less: Provision for inventories	**12,310**	12,109
	2,072,918	2,644,686

14. TRADE RECEIVABLES

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Trade receivables	**299,678**	413,904
Impairment	**–**	–
	299,678	413,904

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

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

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Within three months	**276,571**	376,097
More than three months but less than one year	**22,356**	37,544
More than one year	**751**	263
	299,678	413,904

The aged analysis of the trade receivables that are not individually or collectively considered to be impaired is as follows:

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Neither past due nor impaired	**276,571**	376,097
Less than three months past due	**22,356**	37,544
Three months to one year past due	**751**	263
	299,678	413,904

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

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Prepayments to suppliers	**1,271,375**	1,509,255
Rebate receivables	**1,325,268**	1,401,452
Other receivables *(i)*	**1,030,174**	1,121,753
Unsettled consideration receivable *(note 24)*	**54,419**	–
VAT recoverable	**32,833**	66,765
Prepaid expense	**15,345**	14,685
Others	**75,614**	83,874
	3,805,028	4,197,784

(i) Included in other receivables is an amount of RMB956,000,000 arose from the acquisition of Yangzhou Huawei Automobile Investment Management Company Limited and its subsidiaries (collectively as "**Huawei entities**") during the year ended 31 December 2017, of which it represents the amount due from the former shareholders of Huawei entities, and the receivable amount is interest free with no fixed terms of repayment and secured by guarantee and pledge of buildings and land use rights.

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Effective interest rate (%)	*RMB'000*	Effective interest rate (%)	*RMB'000*
Current				
Bank loans	**3.05-9.14**	**5,608,014**	3.05-10.00	5,861,916
Other borrowings	**4.35-12.50**	**736,206**	3.68-11.00	979,912
		6,344,220		6,841,828
Non-current				
Bank loans	**4.28-7.00**	**79,300**	7.35-8.32	109,900
Other borrowings	**4.28-12.50**	**565,185**	8.00-12.50	538,053
		644,485		647,953
		6,988,705		7,489,781

17. TRADE AND BILLS PAYABLES

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Trade payables	**521,934**	527,537
Bills payable	**1,837,735**	3,766,837
	2,359,669	4,294,374

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

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Within 3 months	**1,660,465**	3,359,850
3 to 6 months	**440,250**	705,565
6 to 12 months	**255,126**	224,706
Over 12 months	**3,828**	4,253
	2,359,669	4,294,374

The trade payables are non-interest-bearing and are normally settled on terms from 3 to 6 months.

18. OTHER PAYABLES AND ACCRUALS

	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Advances from customers	**860,596**	910,987
Payables for purchase of items of property, plant and equipment and land use rights	**365,160**	379,804
Taxes payable (other than income tax)	**180,070**	196,126
Unsettled consideration for business combinations	**73,154**	73,154
Accrued expenses	**113,936**	90,092
Dividend payable	**13,320**	13,320
Advancements from former shareholders and employees arising from acquisitions	**60,865**	59,821
Other payables *(i)*	**–**	427,200
Others	**197,975**	188,415
	1,865,076	2,338,919

(i) Other payables represented the capital funding from the independent third parties pursuant to the prevailing terms as stipulated in the agreement of the limited liability partnership fund between the Group and the two parties. In January 2018, the Group and the two parties reached consensus that the limited liability partnership is to be dissolved, and the applicable dissolution procedures are in the process of obtaining approvals from the relevant authorities, and the amount has been settled during the period.

19. DIVIDEND

The Directors resolved not to declare any interim dividend to the shareholders of the Company for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).

20. SHARE CAPITAL

	30 June 2018 ***RMB'000*** **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Issued and fully paid:		
946,476,000 (2017: 946,476,000) ordinary shares of US$0.0000005 each	**3**	3
664,268,747 (2017: 664,268,747) convertible preference shares of US$0.0000005 each	**2**	2
	5	5

21. CONTINGENT LIABILITIES

In the opinion of the Directors, other than the property defectives mentioned in notes 9 and 10, as at 30 June 2018, neither the Group nor the Company had any significant contingent liabilities.

22. COMMITMENTS

a. Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding as at 30 June 2018 and 31 December 2017 not provided for in the interim condensed consolidated financial statements were as follows:

	30 June 2018 ***RMB'000*** **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Contracted, but not provided for land use rights and buildings	**175,337**	210,080

22. COMMITMENTS *(Continued)*

b. Operating lease arrangements

The Group leases certain of its office properties and land under operating lease arrangements. Leases for properties and land are negotiated for terms ranging from 1 to 20 years.

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Properties ***RMB'000***	**Land** ***RMB'000***	Properties *RMB'000*	Land *RMB'000*
Within one year	**46,011**	**45,430**	44,450	19,537
After one year but within five years	**176,147**	**175,833**	166,995	71,580
After five years	**133,704**	**137,701**	144,606	116,412
	355,862	**358,964**	356,051	207,529

23. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

(a) The Group had the following transactions with a related party for the six months ended 30 June 2017 and 2018:

	For the six months ended 30 June	
	2018 ***RMB'000*** **(Unaudited)**	2017 *RMB'000* (Unaudited)
Advancement from a shareholder		
Mr. Yang Peng	**70,888**	4,285

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

(b) The Group had the following significant balance with its related party as at 30 June 2018 and 31 December 2017:

	30 June 2018 ***RMB'000*** **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Due to a substantial shareholder		
Mr. Yang Peng	**276,465**	226,397

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

(c) Compensation of key management personnel:

	For the six months ended 30 June	
	2018 ***RMB'000*** **(Unaudited)**	2017 *RMB'000* (Unaudited)
Short term employee benefits	**1,387**	2,976
Pension scheme contributions	**62**	129
Total compensation paid to key management personnel	**1,449**	3,105

24. DISPOSAL OF SUBSIDIARIES

The Group entered into equity transfer agreements with three independent third parties respectively, in May 2018 to dispose of three subsidiaries in the PRC with a total consideration of RMB255,000,000. As at 30 June 2018, RMB200,581,000 of the total consideration was settled and the remaining balance of RMB54,419,000 will be settled within the next twelve months.

Net assets disposed of:

	RMB'000
Property, plant and equipment	122,019
Land use right	24,163
Intangible assets	110
Inventories	41,374
Trade receivables	3,427
Prepayments, deposits and other receivables	83,719
Pledged bank deposits	18,778
Cash in transit	22
Cash and cash equivalents	97
Trade and bills payables	(42,648)
Other payables and accruals	(187,164)
Amounts due to a related party	(20,820)
Interest-bearing bank and other borrowings	(14,202)
Tax payable	(1,756)
	27,119
Gain on disposal of subsidiaries	227,881
Consideration satisfied by cash	255,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	RMB'000
Cash consideration	255,000
Unsettled consideration receivable *(note 15)*	(54,419)
Cash and cash equivalents disposed	(97)
Net cash inflow in respect of the disposal of subsidiaries	200,484

25. ASSETS & LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

During the period ended 30 June 2018, the Group is contemplating to dispose of certain subsidiaries as part of the Group business strategy to realign its organizational operating and brand structure. As at 30 June 2018, the negotiation process for the sales to potential independent acquirers are still in progress. Accordingly, the assets and liabilities of these subsidiaries are classified as disposal group held for sale.

26. SHARE OPTION SCHEME

Before the incorporation of the Company, China Rundong Auto Holding Ltd. (the "**Former Listing Vehicle**") operates a share option scheme (the "**Pre-IPO Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. In order to operate the Pre-IPO Scheme, the Former Listing Vehicle established a trust (the "**Employee Pre-IPO Trust**") under a trust deed in September 2011. Eligible participants of the Pre-IPO Scheme will be nominated as beneficiaries of the Employee Pre-IPO Trust. Eligible participants include the Company's directors, including independent non-executive directors, and other employees of the Group and its subsidiaries. The Pre-IPO Scheme became effective on 15 November 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date with a fixed exercise price of US$0.3573 per share.

The Former Listing Vehicle offered the share options to subscribe for a total of 40,000,000 shares upon their exercise, representing 5% of the then issued share capital of the Former Listing Vehicle, to Runda (PTC) Limited ("**Runda**"), acting as the trustee to the Employee Pre-IPO Trust. Runda holds the share options for the benefit of the eligible participants when they are granted with the share options. Share options were offered to each eligible participant in various batches from 2 January 2012 to 31 December 2013.

Each of the eligible participants has entered into a share option agreement (the "**Pre-IPO Share Option Agreement**") with the Former Listing Vehicle and Runda under which the Former Listing Vehicle nominated eligible participants as beneficiaries of the Employee Pre-IPO Trust. The offer of a grant of options may be accepted within seven days from the date of offer. The exercise period of the share options granted is dependent on the Company's qualified IPO listing and commences after a vesting period of one to five years and ends on the expiry date of the Pre-IPO Scheme.

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

On 24 March 2014, 14 eligible participants (the "**Relevant Grantees**") entered into supplemental agreements (each, the "**Supplemental Agreement**") to their respective Pre-IPO Share Option Agreements with the Former Listing Vehicle and Runda to modify the original vesting conditions and periods and be entitled to fully vest their share options on the date of modification. The share options would be exercisable upon the completion of the IPO. Pursuant to the Supplemental Agreement, the Former Listing Vehicle agreed to (a) procure Runda to exercise the share options to which each of these Relevant Grantees was entitled to; and (b) upon such exercise, issue 30,700,000 shares in the Former Listing Vehicle to Runda as unpaid shares for the Relevant Grantees as beneficiaries of those shares. The incremental fair value of share options during the three months ended 31 March 2014 was estimated as at the date of modification, using a binomial model, taking into account the terms and conditions upon which the options were modified. The incremental fair value was measured as the difference between the fair value of the original award and that of the modified award and was recognised as a share option expense during the six months ended 30 June 2014.

Upon the Company's public listing, the Former Listing Vehicle, the Company, Runda and eligible participants entered into share option agreements to carry forward its former share options in the Former Listing Vehicle, other than those early exercised, to the Company without any change in terms and conditions.

26. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Pre-IPO Scheme during the period:

	For six months end 30 June 2018		For six months ended 30 June 2017	
	Exercise price ***US$ per share***	**Number of options** ***'000*** **(Unaudited)**	Exercise price *US$ per share*	Number of options *'000* (Unaudited)
At 1 January	**0.3573**	**4,702**	0.3573	5,200
Granted during the period	**0.3573**	**11**	0.3573	65
Forfeited during the period	**0.3573**	**(604)**	0.3573	(133)
At 30 June	**0.3573**	**4,109**	0.3573	5,132

The weighted average fair values of the share options granted during the period ended 30 June 2018 was US$0.1616 (RMB1.0559) (unaudited) (30 June 2017: US$0.1684 (RMB1.1682) (unaudited)) per option, of which the Group recognised an equity-settled share option expense of RMB28,000 (unaudited) (for six months ended 30 June 2017: RMB218,000 (unaudited)) during the six months ended 30 June 2018.

The fair value of the share options granted during the six months ended 30 June 2018 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	For six months ended 30 June 2018	For six months ended 30 June 2017
Dividend yield (%)	**–**	–
Expected volatility (%)	**46.0-47.0**	49.0-50.0
Risk-free interest rate (%)	**2.07-2.24**	1.91-2.22
Expected life of options (year)	**10**	10
Weighted average share price (US$ per share)	**0.4364**	0.4190

The expected life of the options is based on the Pre-IPO Scheme which became effective on 15 November 2011 and will remain in force for 10 years until 15 November 2021. The expected volatility reflects the assumption that the historical volatility of other similar listed companies is indicative of future trends of the Company, which may also not necessarily be the actual outcome. The weighted average share price reflects the assumption that the historical weighted average share price of other similar listed companies is indicative of future trend of the Company.

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

27. EVENTS AFTER THE REPORTING PERIOD

As disclosed in note 12 in relation with the potential acquisitions, the Directors are of the opinion that these acquisitions are still in progress and the completion is subject to terms and conditions to be agreed with the shareholders and the applicable approvals from the relevant authorities.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of the Directors on 30 August 2018.

CHINA RUNDONG AUTO GROUP LIMITED
中國潤東汽車集團有限公司