润东汽车

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

2020

INTERIM REPORT
中期報告

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Yang Peng *(Chairman, executive Director and Chief Executive Officer)*
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. Li Xin
Mr. Xiao Zhengsan
Mr. Mei Jianping

COMPANY SECRETARY

Ms. Ho Siu Pik

AUTHORIZED REPRESENTATIVES

Mr. Yang Peng
Ms. Ho Siu Pik

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

9F, Shenzhou Wisdom Plaza
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

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

1365

WEBSITE

www.rundong.com.cn

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors 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**" "**we**", "**us**", or "**our**") for the six months ended 30 June 2020 (the "**Period under Review**").

In the first half of 2020, in face of the severe challenges brought by the novel coronavirus epidemic, the gross domestic product of China declined by 1.6% year-on-year, and the national per capita consumption expenditure actually fell by 9.3%. In the first half of the year, the domestic consumer goods market in China has been affected more obviously by the epidemic, and residents' shopping and dining activities have decreased. From January to June, the total retail sales of consumer goods fell by 11.4% year-on-year. Affected by factors such as the epidemic, the cycle of the automobile industry and the lack of consumer confidence, passenger automobile market in China recorded negative growth in the first half of 2020. 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 7.754 million units and 7.873 million units, respectively, representing a year-on-year decrease of 22.5% and 22.4% respectively.

Affected by the above unfavorable market environment factors, and taking into account of the Group's operating results and available financial resources, during the Period under Review, the operating strategy of the Group focused on tightening our business. Based on the evaluation of the economic development level, power of consumption of the area where the dealership stores are located, as well as taking into consideration of the automobile brands, operation scale of stores and operation capability, we gradually shut down part of stores with poor performance, and consolidated stores of same brand in the same city, in order to further reduce operating costs and losses. The Group also put a lot of effort into managing the tight capital and debt burden. In order to alleviate the financial pressure faced by the Group, the management had in-depth discussions with creditors, banks and potential investors to improve its overall cash flows Meanwhile, the Group has been actively exploring and seeking possible cooperation opportunities with potential external investors.

Affected by factors such as the macroeconomic downturn, the slowdown in the growth rate of residents' income, and the lack of consumer confidence, it is expected that the pressure on new vehicle sales market in the second half of 2020 will be further increased. However, in order to restore the normal operation of the overall economy and stabilize the consumption of the domestic automobile market, the government has taken various measures. From the national level to the local level, the government has introduced a variety of supportive measures to stimulate the consumption of vehicles, including issuing new car purchase subsidies, increasing quota for car license, encouraging the old-for-new car purchase, and continue to exempt purchase tax for new energy vehicles. Under the above multiple policies, the automobile market is expected to recover gradually even though it is under pressure in the second half of 2020. In the future, the automobile market is expected to maintain a quarterly improvement trend.

CHAIRMAN'S STATEMENT

The Group will continue to advance our business strategy, concentrate on superior resources to strengthen the operating capabilities of existing stores, and further develop relevant value-added services of dealerships stores through active sales and marketing measures to increase sales and improve profitability. In addition, after optimizing the sales network, the Group will further streamline the organizational structure. For all major cost items, the Group will continue to implement strict cost control measures and strive to build a more efficient cost base to enhance profitability. The Group is also actively looking for potential external investors, exploring and seeking possible cooperation opportunities, so as to further promote the operation and 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
31 August 2020

INDUSTRY REVIEW

Affected by multiple factors such as increasing downward pressure on the macro economy, slower growth in residents' income, increased constraints on resource and environment brought by the continuous growth of vehicle ownership, and changes in automobile consumption concepts, automobile industry in China has gradually entered a period of adjustment after more than 20 years of industry growth. Since July 2018, automobile sales in China have experienced 21 consecutive months of decline. The slowdown in sales has affected the entire automotive industry chain, and the pressure on automotive dealers to survive has surged.

In the first half of 2020, as the automobile industry continued to be affected by the early Spring Festival holiday, the outbreak of the COVID-19 and the slowdown in macroeconomic growth, the downward trend of automobile market has been accelerated. In the first quarter, due to the delay in the start and resumption of work caused by COVID-19, automobile consumer demand was sluggish, and automobile sales decreased by 42.4% year-on-year, which was a record low. In the second quarter, as the epidemic was brought under control in China, companies began to resume work and production, and domestic consumer demand slowly increased, and automobile consumption began to recover weakly.

According to the semi-annual production and sales data issued by the China Association of Automobile Manufacturers, the production and sales volume of passenger vehicles was approximately 7.754 million and approximately 7.873 million respectively, a year-on-year decrease of 22.5% and 22.4% respectively. From the data of subdivided vehicle model, the production and sales volume of sedans decreased year-on-year by 25.9% and 26.0% respectively; the production and sales volume of SUVs decreased year-on-year by 14.6% and 14.9% respectively; and the production and sales volume of MPV decreased year-on-year by 48.1% and 45.7% respectively.

Affected by factors such as the epidemic and the lack of consumer confidence caused by the decline in residents' income growth, the inventory pressure of automobile dealers continued to increase. According to the "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 of the first half of 2020. Due to the increased inventory pressure, end sales competition was fierce and there were different degrees of discount for the prices.

According to the figures released by the Traffic Management Bureau under the Ministry of Public Security, as of the end of June 2020, the automobile ownership in China has reached approximately 270 million units. Such a large quantity will contribute to the rapid development of the after-sales market business, including automobile maintenance, car insurance etc.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Affected by the COVID-19 epidemic and the slowdown of China's macroeconomic growth, the passenger vehicle market in China continued to show a negative growth in the first half of 2020. Taking into account the Group's operating performance and available financial resources, the Group actively promoted the implementation of business strategy plans, and by evaluating the economic development level of the area where the dealership store is located and the consumer's consumption ability, as well as considering the automobile brands, the operating scale and capacity of dealership stores, the Group gradually closed down dealership stores with unsatisfactory performance, transferred some stores and merged same-brand stores in the same city, so as to further reduce operating costs and minimize losses. At the same time, since the distribution authorization agreements of some dealership stores have been expired but failed to renew, the number of the Company's dealership stores further decreased, which resulted in a decline in the sales of the Group.

For the six months ended 30 June 2020, the Group recorded an operating income of approximately RMB1,369.3 million, representing a year-on-year decrease of 72.4%, accounting for a gross loss of approximately RMB20.6 million and the loss attributable to owners of the parent of approximately RMB275.5 million, narrowed by 77.4% year-on-year.

New Car Sales

In the first half of 2020, the Group recorded a revenue of approximately RMB1,140.4 million from new car sales, representing a year-on-year decrease of 73.4%, among which, luxury and ultra luxury car sales revenue reached approximately RMB623.6 million, accounting for 54.7% of the new car sales revenue.

After-sales Services

In the first half of 2020, our after-sales services performance was directly affected by the decrease in the number of automobile dealership stores and in-store automobile maintenance and sales of automobile decoration caused by the decrease in new car sales. For the six months ended 30 June 2020, revenue from our after-sales services of the Group amounted to approximately RMB228.8 million, accounting for 16.7% of the Group's total revenue, the gross profit margin of after-sales service was 12.8%.

Value-added Business

Car value-added business, especially automobile finance and new auto insurance agency business, were also affected by the decrease in automobile dealership stores and the decline in sales volume of new vehicles. In the first half of 2020, the revenue derived from our finance agency services amounted to approximately RMB21.6 million, and the revenue derived from the insurance agency business amounted to approximately RMB11.2 million, representing a significant decrease as compared with the same period in 2019.

Brand and Network Layout

In the first half of 2020, the Group actively promoted the implementation of business strategy plans, and gradually closed down and transferred dealership stores with unsatisfactory performance, and merged same-brand stores in the same city. Meanwhile, since the distribution authorization agreements of some dealership stores have been expired but failed to renew, the number of the Company's dealership stores further decreased. As at 30 June 2020, the Group had 8 automobile dealership stores with automobile brand portfolio including BMW, Lexus, FAW-Volkswagen, Shanghai-Volkswagen, Dongfeng Honda, Nissan and FAW-Toyota.

On 31 August 2020, Rundong Automobile Group Co., Ltd. ("**Rundong Automobile**"), a wholly-owned subsidiary of the Company, entered into an agreement of intent for joint operation with Shanghai Lanhai Automobile Development Co., Ltd ("**Lanhai Automobile**"), in relation to the proposed business cooperation in relation to joint operation and management of 4S dealership stores (the "**Joint Operation**").

As Lanhai Automobile has the dealership authorization from certain automobile manufacturers and Rundong Automobile has the ancillary resources required for the operation of 4S dealership stores, including equipment, premises and human resources, the parties intend to commence joint operation of 4S dealership stores. Based on the preliminary assessment, the parties are expected to have a joint operation capacity covering more than 15 dealership stores.

The Joint Operation will provide an opportunity to the Group for better utilization of its existing operational resources and expansion of its business activities for additional sources of incomes through joint operation of 4S dealership stores in collaboration with independent third parties, which is conducive to the sustainable and stable development of the Group in the long term and is in the interests of the Company and its shareholders as a whole. In the future, in response to current market change trend and enhance the Group's operating vitality, in addition to continuously improve the operating efficiency of self-owned outlets, the Group will continue to explore strategic business cooperation with its peers. The Group's future business model will also gradually transform from single self-operation of automobile dealership stores into a model of "self-operation + joint-operation" of automobile dealership stores.

Outlook and Strategy

The new car sales market will continue to be under further pressure in the second half of 2020 due to the macroeconomic downturn, and the lack of consumer confidence among customers caused by the slowdown in residents' income growth. However, in light of various policies and measures introduced by the PRC central and local government to boost automobile consumption, the new car sales market is expected to improve quarter by quarter subsequently. At the same time, affected by the growth of car ownership and the growth of vehicle age, the focus of industry expansion was accelerating the shift to the after-sales market.

The Group will continue to promote its business strategy, concentrate superior resources to strengthen the operating capabilities of existing stores, and further develop value-added services related to dealership stores through active sales and marketing measures to increase sales and improve profitability. In addition, the Group will further streamline organizational structure after optimizing sales network, continue to implement strict cost control measures, and strive to build a more efficient cost base to enhance its profitability. In the future, in order to adapt to the current market trends and enhance the operating vitality of the Group, in addition to continuing to improve the operating efficiency of its own stores, the Group will continue to develop strategic business cooperation with industry partners. The future business model of the Group will also transition from a single self-operated automobile dealership store to a self-operated + cooperatively operated automobile dealership store. The Group is also actively looking for potential external investors, exploring and seeking possible cooperation opportunities, so as to further promote the operation and management of the Company.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, we recorded a revenue of RMB1,369.3 million, representing a decrease of 72.4% compared to the same period in 2019, mainly due to the decrease in the number of our dealership stores.

The table below sets out the Group's revenue in the first half of 2020 and the first half of 2019.

Revenue Source	Unaudited For the six months ended 30 June 2020		Unaudited For the six months ended 30 June 2019		1H2020 VS. 1H2019
	Revenue *(RMB'000)*	Contribution *(%)*	Revenue *(RMB'000)*	Contribution *(%)*	Change *(%)*
New automobile sales	**1,140,427**	**83.3**	4,280,829	86.4	(73.4)
After-sales services	**228,831**	**16.7**	674,920	13.6	(66.1)
Total	**1,369,258**	**100**	4,955,749	100	(72.4)

Revenue from the sales of automobiles decreased by RMB3,140.4 million, or 73.4% for the six months ended 30 June 2020 compared to the same period in 2019. Revenue generated from automobile sales accounted for 83.3% of our revenue for the six months ended 30 June 2020. Revenue generated from the sales of luxury and ultra-luxury brand and mid- to high-end brand vehicles accounted for 54.7% and 45.3% of our revenue from automobile sales respectively.

Revenue from our after-sales services decreased by 66.1% from RMB674.9 million for the six months ended 30 June 2019 to RMB228.8 million for the same period in 2020.

Cost of sales and services

Our cost of sales and services decreased by RMB3,549.3 million from RMB4,939.2 million for the six months ended 30 June 2019 to RMB1,389.9 million for the same period in 2020, which was primarily due to the decrease of our revenue.

The cost of sales and services of our automobile sales business amounted to RMB1,190.3 million for the six months ended 30 June 2020, representing a decrease of RMB3,244.6 million, or 73.2%, from the corresponding period in 2019. The cost of sales of our after-sales services amounted to RMB199.6 million for the six months ended 30 June 2020, representing a decrease of RMB304.8 million, or 60.4%, from the corresponding period in 2019.

Gross profit/loss and gross profit margin

Gross loss for the six months ended 30 June 2020 was RMB20.6 million. Gross loss from automobile sales decreased by 400.6% from gross profit of RMB16.6 million for the six months ended 30 June 2019 to gross loss of RMB49.9 million for the same period in 2020. Gross profit from after-sales services decreased by 82.8% from RMB170.6 million for the six months ended 30 June 2019 to RMB29.3 million for the same period in 2020.

Gross profit margin for the six months ended 30 June 2020 is -1.5%, of which the gross profit margin of automobile sales was -4.4% and of after-sale services was 12.8%.

Other income and gains, net

Other income and gains, net increased by 53.0% from RMB114.8 million for the six months ended 30 June 2019 to RMB175.5 million for the corresponding period in 2020, mainly attributable to the gain from disposal of right-in-use assets arising from the closure of the Group's dealership stores and termination of lease contracts during the first half of 2020; among which, commission income decreased by 42.1% from RMB98.2 million for the same period in 2019 to RMB56.9 million for the corresponding period in 2020.

Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB121.1 million for the six months ended 30 June 2020, representing a decrease of 37.8% from RMB194.5 million for the same period in 2019, mainly due to the decrease in staff costs and the decrease of marketing expenses.

Administrative expenses

Administrative expenses of the Group amounted to RMB81.0 million for the six months ended 30 June 2020, representing a decrease of 63.2% from RMB219.9 million for the same period in 2019, mainly due to the decrease of staff costs and the decrease of depreciation of disposal of fixed assets.

Finance costs

Finance cost of the Group amounted to RMB213.5 million for the six months ended 30 June 2020, representing an increase of 15.7% from RMB184.5 million for the same period in 2019.

Operating loss

Operating loss of the Group amounted to RMB306.0 million for the six months ended 30 June 2020, representing a reduction of 74.8% from the loss of RMB1,215.2 million for the same period in 2019.

Income tax credit

Income tax credit of the Group amounted to RMB30.0 million for the six months ended 30 June 2020.

Loss for the period

The Group's loss for the six months ended 30 June 2020 amounted to RMB275.9 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 30 June 2020, our cash and cash equivalents amounted to RMB39.0 million, representing a decrease of 29.4% from RMB55.2 million as at 31 December 2019. This was mainly attributable to the continuing loss and shrink of business scale of the Group.

Our primary uses of cash were to purchase new automobiles, spare parts and automobile accessories and supplies 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 and other borrowings, cash flow generated from our operating activities and other funds raised from the capital market from time to time.

For the six months ended 30 June 2020, we had a net cash inflow from operating activities of RMB244.0 million (30 June 2019: RMB295.7 million). We had a net cash inflow from investing activities of RMB23.1 million (30 June 2019: RMB1,615.5 million). We had a net cash outflow from financing activities of RMB290.5 million (30 June 2019: RMB2,123.3 million).

Net current liabilities

As at 30 June 2020, we had net current liabilities of RMB6,578.3 million, representing an increase of RMB250.1 million from RMB6,328.2 million as at 31 December 2019. The increase in the current liabilities was mainly due to the increase of interest payable and provision.

Capital expenditure

Our capital expenditures primarily comprise expenditures on property, plant and equipment and intangible assets. For the six months ended 30 June 2020, our total capital expenditure was RMB63.2 million (for the six months ended 30 June 2019: RMB154.3 million).

Inventories

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

Our inventories decreased by 50.5% from RMB491.8 million as at 31 December 2019 to RMB243.3 million as at 30 June 2020, primarily due to the improvement of inventory management and acceleration of liquidation of inventories.

For the first half of 2020, our average inventory turnover days increased to 47.8 days from 44.5 days in the same period in 2019.

Trade receivables

Trade receivables decreased from RMB110.0 million for the year ended 31 December 2019 to RMB41.9 million for the six months ended 30 June 2020, primarily due to the provision of bad debts for many receivables which were overdue for more than one year.

Bank loans and other borrowings

Our bank loans and other borrowings as at 30 June 2020 were RMB3,892.8 million, representing a decrease of RMB254.6 million from RMB4,147.4 million as at 31 December 2019.

Interest rate risk and foreign exchange risk

We are exposed to interest rate risk resulting from fluctuations in the interest rate of our borrowings. Part of our borrowings was floating rate borrowings that are linked to the benchmark rates of the People's Bank of China. Increase in interest rates 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 currently do not 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 2020 was 180.0% (31 December 2019: 206.2%).

Human resources

As at 30 June 2020, the Group had 2,751 employees (30 June 2019: 4,284). Total staff costs for the the first half of 2020, excluding Directors' remuneration, were RMB89.9 million (for the six months ended 30 June 2019: RMB162.4 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.

Pledge of the Group's assets

The Group pledged its assets as securities for bank loans, other borrowings and banking facilities, which were used to finance daily business operation. As at 30 June 2020, the pledged assets of the Group amounted to RMB1,428.6 million.

Contingent liabilities

Please refer to Note 23 to the unaudited interim condensed consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

Please refer to Note 28 to the unaudited interim condensed consolidated financial statements.

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

As at 30 June 2020, 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	1,330,267,747 (L)	140.55%

Notes:

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

(2) Mr. Yang Peng as the protector of the Rue 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 Rue Feng family trust, currently being HSBC International Trustee Limited. Mr. Yang Peng is also interested in 665,999,000 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 which Rundong Fortune Investment Limited is interested in under the SFO.

Save as disclosed above, as at 30 June 2020, 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 2020, 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	75,981,000 (L)	8.03%

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 Rue Feng family trust (being HSBC International Trustee Limited as at the date of this interim report) for the benefit of the beneficiaries of the Rue Feng family trust. Mr. Yang Peng, being the protector of the Rue Feng family trust, has the power to appoint and remove, and to amend the rights of, the trustee to the Rue 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 2020, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

For the six months ended 30 June 2020, 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. For the six months ended 30 June 2020, 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 2020.

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 Period under Review.

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 2020 (for the six months ended 30 June 2019: nil).

SHARE OPTION SCHEME

a. 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 2020 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 2020	Granted during the Period under Review	Lapsed/ forfeited during the Period under Review	Exercised during the Period under Review	Expired during the Period under Review	Outstanding as at 30 June 2020
Employees	15 November 2011	Note 1	Note 2	US$0.3573	2,521,028	0	120,000	–	–	2,401,028

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 31 March of every year commencing from 2012;

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

iii. if a grantee is employed from 1 January 2013 to 31 December 2013, the Vesting Date shall be 31 March of every year commencing from 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 Period under Review, none of the Pre-IPO Share Option Scheme was granted or exercised.

b. Share Option Scheme

On 23 July 2014, the shareholders of the Company approved and adopted a share option scheme (the "**Share Option Scheme**") conditionally upon the approval by the Stock Exchange of the listing of, and permission to deal in, any shares to be allotted and issued pursuant to the exercise of options under the Share Option Scheme. The Company received such approval from the Stock Exchange on 11 August 2014.

The Share Option Scheme has been terminated on 14 August 2015.

c. Management Subscription

The purpose of the Management Subscriptions is 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), pursuant to which 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. 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 the Connected Management Subscribers will take place in four installments (the "**Installment Completion**") and the revenue and net profit for the financial year immediately preceding the Installment Completion are not less than the revenue and net profit of the Group for the financial year ended 31 December 2014. As the results of 2015, 2016, 2017 and 2018 cannot fulfill the Subscription Conditions, the management cannot subscribe the foresaid shares, and the management subscription scheme was terminated in 2019.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4(a)	**1,369,258**	4,955,749
Cost of sales	5(b)	**(1,389,869)**	(4,939,179)
Gross (loss)/profit		**(20,611)**	16,570
Other income and gains, net	4(b)	**175,547**	114,756
Selling and distribution costs		**(121,060)**	(194,531)
Administrative expenses		**(80,975)**	(219,944)
Other expenses	5(c)	**(45,332)**	(747,575)
Finance costs	6	**(213,551)**	(184,502)
Loss before tax	5	**(305,982)**	(1,215,226)
Income tax credit/(expense)	7	**30,068**	(2,754)
Loss for the period		**(275,914)**	(1,217,980)
Loss for the period attributable to:			
Owners of the parent		**(275,549)**	(1,216,871)
Non-controlling interests		**(365)**	(1,109)
		(275,914)	(1,217,980)
Loss per share attributable to ordinary equity holders of the parent:	8		
Basic and diluted			
– For loss for the period (RMB)		**(0.29)**	(1.29)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss for the period	**(275,914)**	(1,217,980)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**7,146**	457
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**–**	(201)
Other comprehensive income for the period, net of tax	**7,146**	256
Total comprehensive loss for the period, net of tax	**(268,768)**	(1,217,724)
Total comprehensive loss for the period attributable to:		
Owners of the parent	**(268,403)**	(1,216,615)
Non-controlling interests	**(365)**	(1,109)
	(268,768)	(1,217,724)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**2,167,171**	2,323,883
Land use rights	10	**628,945**	688,620
Right-of-use assets	11	**75,574**	193,886
Intangible assets		**1,443**	1,985
Goodwill	12	**–**	–
Equity investments designated at fair value through other comprehensive income	13	**49,100**	49,100
Total non-current assets		**2,922,233**	3,257,474
CURRENT ASSETS			
Inventories	14	**243,292**	491,834
Trade receivables	15	**41,943**	109,961
Finance lease receivables		**4,456**	3,066
Prepayments, other receivables and other assets	16	**830,812**	899,977
Cash in transit		**1,567**	4,386
Pledged bank deposits		**47,982**	73,188
Cash and cash equivalents		**38,992**	55,224
Total current assets		**1,209,044**	1,637,636
TOTAL ASSETS		**4,131,277**	4,895,110
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	**202,081**	299,215
Deferred tax liabilities		**71,815**	103,198
Lease liabilities	18	**92,685**	280,653
Total non-current liabilities		**366,581**	683,066
CURRENT LIABILITIES			
Trade and bills payables	19	**435,867**	408,085
Other payables and accruals	20	**3,244,161**	3,279,177
Amount due to a related party	25(b)	**191,137**	191,929
Interest-bearing bank and other borrowings	17	**3,690,745**	3,848,140
Income tax payable		**214,629**	219,331
Lease liabilities	18	**10,777**	19,234
Total current liabilities		**7,787,316**	7,965,896
NET CURRENT LIABILITIES		**(6,578,272)**	(6,328,260)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(3,656,039)**	(3,070,786)
EQUITY			
Equity attributable to owners of the parent			
Share capital	22	**5**	5
Reserves		**(4,022,525)**	(3,754,122)
		(4,022,520)	(3,754,117)
Non-controlling interests		**(100)**	265
Total deficits		**(4,022,620)**	(3,753,852)
TOTAL EQUITY AND LIABILITIES		**4,131,277**	4,895,110

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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*	Fair value reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2019	5	2,026,648	522,797	8,886	284,661	(30,603)	(5,766)	(14,349)	(695,124)	2,097,155	5,564	2,102,719
Loss for the period	–	–	–	–	–	–	–	–	(1,216,871)	(1,216,871)	(1,109)	(1,217,980)
Other comprehensive (loss)/income	–	–	–	–	–	–	(201)	457	–	256	–	256
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	(201)	457	(1,216,871)	(1,216,615)	(1,109)	(1,217,724)
At 30 June 2019	5	2,026,648	522,797	8,886	284,661	(30,603)	(5,967)	(13,892)	(1,911,995)	880,540	4,455	884,995
At 1 January 2020	**5**	**2,026,648**	**522,797**	**8,886**	**284,661**	**(37,548)**	**(8,725)**	**(17,361)**	**(6,533,480)**	**(3,754,117)**	**265**	**(3,753,852)**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(275,549)**	**(275,549)**	**(365)**	**(275,914)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,146**	**–**	**7,146**	**–**	**7,146**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,146**	**(275,549)**	**(268,403)**	**(365)**	**(268,768)**
At 30 June 2020	**5**	**2,026,648***	**522,797***	**8,886***	**284,661***	**(37,548)***	**(8,725)***	**(10,215)***	**(6,809,029)***	**(4,022,520)**	**(100)**	**(4,022,620)**

* These reserve accounts comprise the consolidated reserves of RMB(4,022,525,000) (unaudited) in the unaudited interim condensed consolidated statement of financial position as at 30 June 2020.

	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Operating activities			
Loss before tax		**(305,982)**	(1,215,226)
Adjustments for:			
Depreciation and impairment of property, plant and equipment	5(d)	**137,267**	139,162
Amortisation of land use rights	5(d)	**9,901**	10,501
Amortisation and impairment of intangible assets	5(c)/5(d)	**544**	112,688
Finance costs	6	**213,551**	184,502
Interest income	4(b)	**(988)**	(6,326)
Loss on disposal of items of property, plant and equipment	5(c)	**12,821**	12,822
Gain from termination of leases	4(b)	**(81,811)**	–
Net loss on disposal of subsidiaries	4(b)	**4,960**	–
Impairment of goodwill	5(c)	**–**	240,649
Depreciation of right-of-use assets	5(d)/11	**8,250**	37,343
Decrease in inventories		**248,542**	520,618
Decrease in trade receivables		**68,018**	40,389
Decrease in prepayments, other receivables and other assets		**22,425**	999,755
Decrease in pledged bank deposits		**39,950**	229,568
Decrease/(increase) in cash in transit		**2,819**	(16,291)
Increase/(decrease) in trade and bills payables		**27,781**	(912,231)
Decrease in other payables and accruals		**(163,465)**	(50,953)
		244,583	326,970
Income taxes paid		**(594)**	(31,308)
Net cash flows generated from operating activities		**243,989**	295,662
Investing activities			
Purchase of items of property, plant and equipment		**(71,799)**	(154,293)
Proceeds from disposal of items of property, plant and equipment and land use right		**96,180**	46,431
Proceeds from disposal of subsidiaries		**(2,245)**	–
Purchase of intangible assets		**–**	(202)
Proceeds from disposal of intangible assets		**–**	7
Advance from a proposed potential acquirer		**–**	1,716,000
Interest received		**988**	7,537
Net cash flows generated from investing activities		**23,124**	1,615,480

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes	**2020 RMB'000 (Unaudited)**	2019 RMB'000 (Unaudited)
Financing activities			
Proceeds from interest-bearing bank and other borrowings		**662,703**	2,102,677
Repayment of interest-bearing bank and other borrowings		**(887,235)**	(4,031,669)
Interest paid		**(45,871)**	(184,502)
Decrease in amount due to a related party	*25*	**(792)**	(195,580)
Principal portion of lease payments		**(4,552)**	(18,222)
(Increase)/decrease in pledged bank deposits		**(14,744)**	203,983
Net cash flows used in financing activities		**(290,491)**	(2,123,313)
Net decrease in cash and cash equivalents		**(23,378)**	(212,171)
Net foreign exchange differences		**7,146**	457
Cash and cash equivalents at beginning of period		**55,224**	865,950
Cash and cash equivalents at end of period		**38,992**	654,236
Analysis of balances of cash and cash equivalents at end of period			
Cash and cash equivalents as stated in the consolidated statement of cash flows		**38,992**	654,236

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 the 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 2020 and the related interim condensed consolidated statement of profit or loss, interim condensed comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months period then ended, have been prepared in accordance with HKAS 34 "Interim Financial Reportings" 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 2019.

Going concern basis

During the six months ended 30 June 2020, the Group incurred a net loss of approximately RMB275,914,000 (unaudited). As at 30 June 2020, the Group had a shareholders' deficit approximately of RMB4,022,620,000 (unaudited), the Group's current liabilities exceeded its current assets by approximately RMB6,578,272,000 (unaudited) and the Group only had cash and cash equivalents of approximately RMB38,992,000 (unaudited). The status of the Group's borrowings as at 30 June 2020 was further detailed in note 17 to the consolidated financial statements.

As disclosed in the Company's profit warning announcement dated 5 August 2020, in view of the overall negative growth in the automobile industry and considering of the operating performance and available financial resources of the Group, the Group has reassessed the economic development level, consumers' power of consumption in the area where the stores are located, as well as taking into consideration of the automobile brands, operation scale of stores and operation capability. The Group has therefore gradually shut down dealership stores with poor performance and consolidated stores of same brand in the same city, with a view to further reducing the operating costs and losses, and enhance the Group's overall competitiveness, profitability and liquidity. Additionally, since the dealership authorisation agreements of several stores expired and were unable to be renewed, the number of dealership stores of the Group has further decreased, which led to a decrease in the sales of the Group.

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

2.1 Basis of Preparation *(Continued)*

Going concern basis *(Continued)*

Furthermore, the outbreak of Coronavirus Disease 2019 ("**COVID-19**") in China in early 2020 had relatively material and negative impacts on a number of operating entities, including those operated by the Group, and the impacts are expected to continue for a certain period. Therefore, the Group is facing challenges in the macro-environment for the operation in 2020.

All of the above conditions indicate the existence of multiple material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of the circumstances and conditions mentioned above, the directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented, or is in the process of implementing, the following key plans and measures:

(i) *Business strategy plan*

The Company's management is reviewing the business operations situation and considering a range of action plans to address the working capital and liquidity position of the Group. During the financial period, the Group carried out its business strategy plan that includes realignment of certain automotive brands, reassessment of geographical operation scale, refocusing of stores operation performance, and other applicable reorganisation initiatives in order to optimise the overall business operational structure, and to improve the liquidity and working capital of the Group.

The Group is contemplating to expand business activities for additional sources of incomes, which includes inter alia, providing short term operating leases of certain premises of the Group to independent third parties, and entering into a joint business operation agreement with an independent third party that enables the Group to provide management operation service for 4S dealership stores. In addition, the Group will be exploring and seeking opportunities with independent third party for strategic capital investment into the Group within the next twelve months.

(ii) *Extension of due dates of financial institutions and other loans*

The Group is actively negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans. As of the date of the report, the Group has entered into extension agreements with four financial institutions in Mainland China. Pursuant to the extension agreements, the due dates of bank loans aggregating to RMB210,000,000 (unaudited) (the "**extended loans**") as at 30 June 2020 have been extended to July 2020, August 2020, October 2020 and April 2021 respectively.

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

2.1 Basis of Preparation *(Continued)*

Going concern basis *(Continued)*

(iii) Creditors' repayment schedules

The Group has been actively seeking appropriate opportunities to engage with its creditors to stabilise the current liquidity situation and will continue to conduct a regular dialogue with a view to identifying and implementing a consensual resolution of the terms of repayments with these creditors.

(iv) Cost control measurements

The Group is taking measures to downsize the overall operation scale and tighten cost controls over the daily administrative and other operating expenses, and to optimise the organisation structure and employee head-counts, aiming at improving the working capital and cash flow position of the Group for the next twelve months.

The directors of the Company, including members of the audit committee, have reviewed the Group's business strategy plan and cash flow projections prepared by management, covering a period of not less than twelve months from 30 June 2020. Although there is an uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, the directors, after taking into account the above-mentioned plans and measures, are of the opinion that, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2020. Accordingly, the directors believe that it is appropriate to prepare the unaudited interim condensed consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to continue as a going concern will depend upon the Group's ability to generate adequate financial and operating cash flows through the following:

(i) Successfully negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans;

(ii) Successfully implementing a consensual resolution of the terms of repayments with creditors;

(iii) Successfully carrying out the Group's business strategy plan and cost control measurements so as to improve working capital and cash-flow position; and

(iv) Successfully obtaining additional new sources of financing or new strategic capital investments to be injected by independent third party into the Group within next twelve months.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the unaudited interim condensed consolidated financial statements.

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

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") effective as of 1 January 2020.

(a) Adoption of new/revised HKFRSs – effective 1 January 2020

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

Revised Conceptual Framework	*Revised Conceptual Framework for Financial Reporting*
Amendments to HKFRS 3	*Definition of a business*
Amendments to HKAS 1 and HKAS 8	*Definition of material*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*

Several amendments and interpretations apply for the first time in 2020, but do not have a material impact on the unaudited interim condensed consolidated financial statements of the Group.

(b) New/amended HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's unaudited interim condensed financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendment to HKFRS 16	*COVID-19-Related Rent Concessions*[1]
HKFRS 17	*Insurance Contracts*[2]
Amendment to HKAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]

1 Effective for annual periods beginning on or after 1 June 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

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 the Mainland China and all of the Group's identifiable assets and liabilities were located in the 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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from the sale of motor vehicles	**1,140,427**	4,280,829
Revenue from after-sales services	**228,831**	674,920
Total revenue from contracts with customers	**1,369,258**	4,955,749
Timing of revenue recognition		
At a point in time	**1,369,258**	4,955,749

4. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

(b) Other income and gains

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Commission income	**56,863**	98,238
Bank interest income	**988**	6,326
Rental income	**31,740**	2,226
Government grants	**3,484**	667
Loss on disposal of subsidiaries	**(4,960)**	–
Gain from termination of leases	**81,811**	–
Others	**5,621**	7,299
	175,547	114,756

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

		For the six months ended 30 June	
		2020	2019
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	Employee benefit expense (excluding directors' and chief executive's remuneration):		
	Wages and salaries	**73,717**	92,075
	Other welfare	**16,182**	70,363
		89,899	162,438
(b)	Cost of sales and services:		
	Cost of sales of motor vehicles	**1,190,306**	4,434,851
	Cost of after-sales services	**199,563**	504,328
		1,389,869	4,939,179
(c)	Other expenses:		
	Impairment of goodwill	**–**	240,649
	Impairment allowance of trade receivables	**32,607**	–
	Impairment allowance of prepayments, other receivables and other assets	**–**	392,722
	Impairment of intangible assets	**–**	92,122
	Loss on disposal of items of property, plant and equipment	**12,821**	12,822
	Exchange gain	**(45)**	(5)
	Collection of assets written off in previous years	**(12,500)**	–
	Others	**12,449**	9,265
		45,332	747,575

5. LOSS BEFORE TAX *(Continued)*

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(d) Other items:		
Depreciation of items of property, plant and equipment	**137,267**	139,162
Depreciation of right-of-use assets	**8,250**	37,343
Amortisation of land use rights	**9,901**	10,501
Amortisation of intangible assets	**544**	20,566
Advertisement and business promotion expenses	**5,265**	16,646
Reversal of write-down inventories	**(60,174)**	(3,241)
Lease expenses	**2,784**	1,460
Bank charges	**740**	3,170

6. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings wholly repayable within five years	**173,654**	130,541
Interest expense on other borrowings	**34,450**	24,870
Interest portion of the lease liabilities	**5,447**	29,428
Less: interest capitalised	**–**	(337)
	213,551	184,502

7. TAX

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Mainland China corporate income tax	**857**	9,012
Deferred tax	**(30,925)**	(6,258)
Total tax (credit)/expense for the period	**(30,068)**	2,754

Pursuant to Section 6 of the Tax Concessions Law (2011 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, income, gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the British Virgin Islands (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 2019: 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 2019: 25%) during the period.

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

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 946,476,000 in issue during the six months ended 30 June 2020 (946,476,000 ordinary shares during the six months ended 30 June 2019).

The calculation of the diluted loss per share amount is based on the loss 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 loss 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 loss per share are based on:

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to ordinary equity holders of the parent, used in the earnings per share calculation	**(275,549)**	(1,216,871)

	Number of shares For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation	**946,476,000***	946,476,000

* Because the Group is loss-making for the period ended 30 June 2020 and 2019, the convertible preference shares and share options have no dilutive impact.

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Loss per share		
Basic and diluted (RMB)	**(0.29)**	(1.29)

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2020, the Group acquired assets at a consideration of approximately RMB63,248,000 (unaudited) (for the six months ended 30 June 2019: RMB149,132,000 (unaudited)).

Assets with a net book value of approximately RMB59,255,000 (unaudited) were disposed of by the Group during the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB76,587,000 (unaudited)).

Certain of the Group's buildings with aggregate net book values of approximately RMB372,877,000 (unaudited) and RMB380,254,000, respectively, as at 30 June 2020 and 31 December 2019 were pledged as security for the Group's interest-bearing bank and other borrowings.

Certain of the Group's motor vehicles with aggregate net book values of approximately RMB24,509,000 (unaudited) and RMB28,762,000, respectively, as at 30 June 2020 and 31 December 2019 were pledged as security for the Group's interest-bearing other borrowings.

Certain of the Group's buildings with aggregate net book values of approximately RMB26,915,000 (unaudited) and RMB27,627,000, as at 30 June 2020 and 31 December 2019, 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 2020 and 31 December 2019.

10. LAND USE RIGHTS

No land use rights were acquired during both the six months ended 30 June 2019 and 2020.

Land use rights with a net book value of approximately RMB46,226,000 were disposed of by the Group during the six months ended 30 June 2020 (2019: Nil).

Certain of the Group's land use rights with aggregate net book values of approximately RMB144,006,000 (unaudited) and RMB190,232,000, respectively as at 30 June 2020 and 31 December 2019 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 approximately RMB23,069,000 (unaudited) and RMB23,434,000, respectively, as at 30 June 2020 and 31 December 2019, 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 2020 and 31 December 2019.

Included in the Group's land use rights are rights to certain parcels of land, with aggregate net book values of approximately RMB63,658,000 (unaudited) and RMB64,768,000, respectively, as at 30 June 2020 and 31 December 2019, 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 2020 and 31 December 2019.

11. RIGHT-OF-USE ASSETS

The carrying amounts of the Group's right-of-use assets, and the movement during the period are as follow:

	Right-of-use assets		
	Properties *RMB'000* **(Unaudited)**	**Land use right** *RMB'000* **(Unaudited)**	**Total** *RMB'000* **(Unaudited)**
As at 1 January 2020	**76,387**	**117,499**	**193,886**
Depreciation charge	**(6,428)**	**(1,822)**	**(8,250)**
Deduction from termination of leases	**(31,507)**	**(78,555)**	**(110,062)**
As at 30 June 2020	**38,452**	**37,122**	**75,574**

	Right-of-use assets		
	Properties *RMB'000* (Audited)	Land use right *RMB'000* (Audited)	Total *RMB'000* (Audited)
As at 1 January 2019	162,828	154,511	317,339
Depreciation charge	(26,155)	(13,038)	(39,193)
Impairment during the year	(60,286)	(23,974)	(84,260)
As at 31 December 2019	76,387	117,499	193,886

12. GOODWILL

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Cost:		
At the beginning of the period/year	**–**	869,107
Impairment during the period/year	**–**	(869,107)
At 30 June 2019	**–**	–
Cost	**1,358,066**	1,358,066
Accumulated impairment	**(1,358,066)**	(1,358,066)
Net carrying amount	**–**	–

13. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2020 ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Xuzhou Huaihai Nongcun Commercial Bank Company Limited	**36,900**	36,900
Tongshanxian Nongcun Credit Cooperation Association	**10,800**	10,800
GaoJing Internet Technology Company	**1,400**	1,400
	49,100	49,100

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

14. INVENTORIES

	30 June 2020 ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Motor vehicles	**141,068**	387,494
Spare parts and accessories	**131,766**	206,565
	272,834	594,059
Less: Provision for inventories	**(29,542)**	(102,225)
	243,292	491,834

No inventories were pledged as security for the Group's bills payable as at 30 June 2020 (31 December 2019: RMB20,871,000).

Certain of the Group's inventories with aggregate net book values of approximately RMB19,942,000 (unaudited) and RMB200,936,000 as at 30 June 2020 and 31 December 2019 were pledged as security for the Group's interest-bearing bank and other borrowings (note 17).

15. TRADE RECEIVABLES

	30 June 2020 *RMB'000* (Unaudited)	31 December 2019 *RMB'000* (Audited)
Trade receivables	**173,934**	209,345
Impairment	**(131,991)**	(99,384)
	41,943	109,961

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 ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of loss allowances is as follows:

	30 June 2020 *RMB'000* (Unaudited)	31 December 2019 *RMB'000* (Audited)
Within 3 months	**20,055**	70,149
3 to 12 months	**21,888**	39,812
	41,943	109,961

15. TRADE RECEIVABLES *(Continued)*

The movements in the loss allowance for impairment of trade receivables are as follows:

	30 June 2020 ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
At beginning of period/year	**99,384**	–
Impairment losses	**32,607**	99,384
At end of period/year	**131,991**	99,384

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group performed an impairment analysis at the end of reporting period by considering the probability of default of the debtors. The probability of default is minimal for debtors other than defaulted receivables. The average expected credit loss rate was 75.8% (unaudited) as at 30 June 2020 (31 December 2019: 47.4%). Trade receivables for which the balances are overdue with age more than three months and the counterparties failed to make the demanded repayments are defaulted receivables. The Group has provided for 100% of the defaulted receivables as at 30 June 2020 (31 December 2019: 100%).

16. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2020 ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Prepayments to suppliers	**661,351**	792,487
Rebate receivables	**77,081**	85,092
Other receivables *(note)*	**1,145,709**	1,141,734
Consideration receivable	**63,700**	54,419
VAT recoverable	**30,788**	18,392
Prepaid expense	**32,540**	4,006
Others	**141,858**	126,062
	2,153,027	2,222,192
Impairment allowance	**(1,322,215)**	(1,322,215)
	830,812	899,977

Note:

Included in other receivables is an amount of RMB947,534,000 (unaudited) as at 30 June 2020 (31 December 2019: RMB944,000,000), which represented the amount due from former shareholder of certain subsidiaries arising from the acquisition of Yangzhou Huawei Automobile Investment Management Company Limited and its subsidiaries during the year ended 31 December 2017. The receivable amount is interest free with no fixed terms of repayment.

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Effective interest rate (%)	***RMB'000***	Effective interest rate (%)	*RMB'000*
Current				
Bank loans	**3.05-8.20**	**3,146,128**	3.05-8.50	3,133,491
Other borrowings	**4.68-17.64**	**544,617**	4.68-17.64	714,649
		3,690,745		3,848,140
Non-current				
Bank loans	**–**	**–**	4.28-7.00	51,000
Other borrowings	**4.28-7.00**	**202,081**	4.28-7.00	248,215
		202,081		299,215
		3,892,826		4,147,355

As at 30 June 2020, certain borrowings of the Group of RMB2,250,936,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements, and the non-current portion of these borrowings of RMB265,720,000 have been reclassified as current liabilities. As stipulated in the relevant loan and financing agreements in respect of certain borrowings of the Group other than those mentioned above, any default of the Group's borrowings may result in cross-default of these borrowings. As a result of such default events, the borrowings of RMB184,322,000 was considered as cross default and have been classified as current liabilities as at 30 June 2020.

As at 30 June 2020, several banks and institutions have demanded repayment for the overdue principal of borrowings through commencing legal proceedings, as further detailed in note 23 to the unaudited interim condensed consolidated financial statements.

The directors are continuing to negotiate with the financial institutions to seek for extension of due dates, and provision have been made to the unaudited interim condensed consolidated financial statements to accrue for any potential interest or other penalties that may arise.

18. LEASE LIABILITIES

The carrying amount of lease liabilities and the movements during the period are as follows:

	30 June 2020 *RMB'000* (Unaudited)	31 December 2019 *RMB'000* (Audited)
Carrying amount at the beginning of the period/year	**299,887**	317,339
Accretion of interest recognised during the period/year	**5,447**	30,245
Payments	**(9,999)**	(47,697)
Deduction from termination of leases	**(191,873)**	–
Carrying amount at the end of the period/year	**103,462**	299,887

	30 June 2020 *RMB'000* (Unaudited)	31 December 2019 *RMB'000* (Audited)
Current	**10,777**	19,234
Non-current	**92,685**	280,653
	103,462	299,887

19. TRADE AND BILLS PAYABLES

	30 June 2020 *RMB'000* (Unaudited)	31 December 2019 *RMB'000* (Audited)
Bills payable	**–**	20,871
Trade payables	**435,867**	387,214
	435,867	408,085

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

	30 June 2020 *RMB'000* (Unaudited)	31 December 2019 *RMB'000* (Audited)
Within 3 months	**121,256**	188,363
3 to 6 months	**141,380**	113,728
6 to 12 months	**162,526**	103,011
Over 12 months	**10,705**	2,983
	435,867	408,085

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

20. OTHER PAYABLES AND ACCRUALS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contract liabilities	**481,500**	691,436
Payables for purchase of items of property, plant and equipment and land use rights	**233,239**	305,038
Taxes payable (other than income tax)	**328,792**	307,149
Unsettled consideration for business combinations	**73,154**	73,154
Accrued expenses	**353,675**	254,327
Dividend payable	**13,320**	13,320
Advancements from former shareholders and employees arising from acquisitions	**8,679**	8,679
Others payables *(note)*	**1,228,656**	1,230,498
Provision	**272,020**	176,830
Others	**251,126**	218,746
	3,244,161	3,279,177

As at 30 June 2020, certain suppliers and third parties have demanded payment for overdue balances through commencing legal proceedings, as further detailed in note 23 to the unaudited interim condensed consolidated financial statements.

The directors are continuing to negotiate with the creditors to identify and implement a consensual resolution of the terms of repayments, and provision have been made to accrue for any potential interest or other penalties that may arise.

Note:

Other payables included a down-payment received from an independent third party in relation to the Company's proposed disposal plan of certain subsidiaries as detailed in the announcement made during the financial year ended 31 December 2019, and short-term advances received from independent third parties, which were unsecured with average interest rates of 6% per annum for a term of one-year period. The Company's proposed disposal plan is still subject to further negotiation between the Company and the independent third party, and the Company will release further announcement as and when appropriate.

21. DIVIDEND

The Directors resolved not to declare any interim dividend to the shareholders of the Company for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

22. SHARE CAPITAL

	30 June 2020 ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Issued and fully paid:		
946,476,000 (2019: 946,476,000) ordinary shares of US$0.0000005 each	**3**	3
664,268,747 (2019: 664,268,747) convertible preference shares of US$0.0000005 each	**2**	2
	5	5

23. CONTINGENT LIABILITIES

In the ordinary course of business, the Group may from time to time be involved in legal litigations matters relating to borrowings, creditors and employee matters among others. As disclosed in note 17 and note 20 with respect to the Group's legal matters, based on the Company's current knowledge and management estimation, the Group records a liability provision in the amount of RMB272,020,000 (unaudited) as at 30 June 2020 (31 December 2019: RMB176,830,000) when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. However, the eventual outcome of such legal matters is inherently unpredictable and subject to significant uncertainties. For contingencies other than the legal matters, the Group evaluates the potential financial impact and believes that the amount or range of reasonably possible loss will not have a material effect on the Group's operations and financial position.

24. COMMITMENTS

Capital commitments of the Group in respect of property, plant and equipment outstanding as at 30 June 2020 and 31 December 2019 not provided for in the unaudited interim condensed consolidated financial statements were as follows:

	30 June 2020 ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Contracted, but not provided for land use rights and buildings	**69,004**	93,384

25. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

(a) The Group had the following transactions with a related party for the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Repayment to a substantial shareholder		
Mr. Yang Peng	**(792)**	(195,580)

(b) The Group had the following significant balances with its related party as at 30 June 2020 and 31 December 2019:

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Due to a substantial shareholder:		
Mr. Yang Peng	**191,137**	191,929

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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short term employee benefits	**1,010**	932
Pension scheme contributions	**24**	36
	1,034	968

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.

26. SHARE OPTION SCHEME *(Continued)*

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.

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

	For six months end 30 June 2020		For six months ended 30 June 2019	
	Exercise price *per share* *US$*	**Number of options *'000* (Unaudited)**	Exercise price *per share* *US$*	Number of options *'000* (Unaudited)
At 1 January	**0.3573**	**2,521**	0.3573	3,815
Granted during the period	**0.3573**	**–**	0.3573	–
Forfeited during the period	**0.3573**	**(120)**	0.3573	(571)
At 30 June	**0.3573**	**2,401**	0.3573	3,244

During the period ended 30 June 2020 and 2019, there's no granted share options. No equity-settled share option expenses recognised by the Group during the period ended 30 June 2020 and 2019, respectively.

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. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2020	31 December 2019	**30 June 2020**	31 December 2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Financial assets				
Equity investments designated at fair value through other comprehensive income	**49,100**	49,100	**49,100**	49,100
	49,100	49,100	**49,100**	49,100
Financial liabilities				
Interest-bearing bank and other borrowings	**3,892,286**	4,147,355	**3,892,286**	4,147,355
	3,892,286	4,147,355	**3,892,286**	4,147,355

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Equity investments designated at fair value through other comprehensive income	–	–	**49,100**	**49,100**
	–	–	**49,100**	**49,100**

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

Fair value hierarchy *(Continued)*

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000* (Audited)	Significant observable inputs (Level 2) *RMB'000* (Audited)	Significant unobservable inputs (Level 3) *RMB'000* (Audited)	Total *RMB'000* (Audited)
Equity investments designated at fair value through other comprehensive income	–	–	49,100	49,100
	–	–	49,100	49,100

The movements in fair value measurements within Level 3 during the period are as follows:

	2020 ***RMB'000*** **(Unaudited)**	2019 *RMB'000* (Audited)
Equity investments at fair value through other comprehensive income:		
At 1 January	**49,100**	55,719
Total losses recognised in other comprehensive income	**–**	3,281
Disposal	**–**	(9,900)
At 30 June/31 December	**49,100**	49,100

The Group did not have any financial liabilities measured at fair value as at 30 June 2020 and 31 December 2019.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2019: Nil).

28. EVENTS AFTER THE REPORTING PERIOD

Filing of bankruptcy and Restructuring by a creditor

On 24 August 2020, the Company was notified that an application for bankruptcy and restructuring ("**Bankruptcy and Restructuring Application**") against Rundong Automobile Group Co, Ltd. ("**Rundong Automobile**") was filed with the Intermediate People's Court of Xuzhou City, Jiangsu Province in the People's Republic of China (the "**PRC**") by a creditor on 20 August 2020. Rundong Automobile is a wholly owned subsidiary of the Company, which holds the majority of the operations/operational subsidiaries of the Company in the PRC.

The Bankruptcy and Restructuring Application was filed against on the ground that Rundong Automobile is unable to repay the relevant creditor an outstanding debt in the amount of RMB1,659,072.62 and accrued interest. The relevant creditor claimed that the above outstanding amount has been overdue for payment by Rundong Automobile since 19 July 2019.

The Group is seeking legal advice from its PRC legal advisor and will take practicable steps to it.

Agreement of intent in relation to joint operation

On 31 August 2020, Rundong Automobile Group Co, Ltd. ("**Rundong Automobile**"), a wholly-owned subsidiary of the Company, entered into an agreement of intent for joint operation (the "**Agreement of Intent**") with Shanghai Lanhai Automobile Development Co, Ltd. (the "**Business Partner**", together with Rundong Automobile, the "**Parties**", and each a "**Party**") in relation to the proposed business cooperation to joint operation and management of certain 4S dealership stores (the "**Joint Operation**").

As the Business Partner has the dealership authorization from certain automobile manufacturers and Rundong Automobile has the ancillary resources required for the operation of 4S dealership stores, including equipment, premises and human resources, the Parties intend to commence joint operation of 4S dealership stores. Based on the preliminary assessment, the Parties are expected to have a joint operation capacity covering more than 15 dealership stores.

Pursuant to the Agreement of Intent, the Parties shall further negotiate and enter into a formal agreement (the "**Formal Agreement**") in respect of, among others, the term of cooperation, the profit and loss sharing mechanism, the operational decision-making, staff arrangement, provision of ancillary resources and liabilities for breach, etc.

The joint operation relationship under the Agreement of Intent and the Formal Agreement shall be exclusive between the Parties. Commencing on the date of the Agreement of Intent and during the term of the Formal Agreement, except with the prior written consent of Rundong Automobile, the Business Partner shall not enter into any written or oral agreement with any third party, which will form joint operation arrangement of the same or similar purpose of the Agreement of Intent and/or the Formal agreement.

28. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

Agreement of intent in relation to joint operation *(Continued)*

The Joint Operation will provide an opportunity to the Group for better utilization of its existing operational resources and expansion of its business activities for additional sources of incomes through joint operation of 4S dealership stores in collaboration with independent third parties, which is conducive to the sustainable and stable development of the Group in the long term and is in the interests of the Company and its shareholders as a whole. In the meantime, the Company will further explore the opportunity of strategic capital investment by the Business Partner into the Group through the Joint Operation.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Business Partner and its ultimate beneficial owner(s) is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

Freezing orders imposed on Rundong Automobile

On 13 September 2020, the Company announced that, because of demands of payments made by certain suppliers, banks, institutions and employees of the Company for overdue amounts through commencing legal proceedings against certain subsidiaries of the Group in the People's Republic of China (the "**PRC Subsidiaries**"), it has come to the attention of the Board of the directors of the Company that certain freezing orders has been imposed on Rundong Automobile Group Co, Ltd ("**Rundong Automobile**").

To the best knowledge of the Company and based on the online searches recently conducted by the Company, as of 11 September 2020, there were in total 153* freezing orders (the "**Freezing Orders**") imposed on Rundong Automobile as the target shareholder over its equity interest (the "**Frozen Interests**") in 49 PRC Subsidiaries and one company in which Rundong Automobile holds approximately 15.0% equity interest (the "**Subject Entities**"), which is currently subsisting and not discharged. To the best knowledge of the Company and based on the online search record, the Freezing Orders has been imposed on Rundong Automobile in respect of 24 pre-litigation dispute, ongoing and concluded legal proceedings as well as court enforcement.

1. Legal impact

As advised by the PRC legal advisers to the Company, the legal consequences with respect to a freezing order enforced against a shareholder (the "**Target Shareholder**") over the equity interest of a subject company being frozen include legal impact on the Target Shareholders and on the Subject Company: on the Target Shareholder, during the period when frozen interest are subject to the freezing order, without the permission from the court, the Target Shareholders is restricted from transferring or pledging the frozen interest; the dividends or distribution attributed to the frozen interest by the Target Shareholder shall be frozen by the court; any further dividend or distribution made by subject company can be ordered by the court to transfer under the custody. On the Subject Company, it shall not register any transfer of the frozen interest for the Target Shareholder, and shall not distribute any dividends or distribution to the Target Shareholder; the Subject Company shall provide financial information such as accounting statement to the court to assist the court's future appraisal and assessment processes; the court may force sell the frozen interest held by the Target Company.

* Out of the 153 freezing orders identified, the Company noted that there was one mistaken record with purported freezing order enforced against Rundong Automobile over an unrelated company where the Rundong Automobile has no equity interest.

28. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

Freezing orders imposed on Rundong Automobile *(Continued)*

1. Legal impact (continued)

As advised by the PRC legal advisers to the Company, during the period when the frozen interests held by the Target Shareholder are subject to the freezing order, the Target Shareholder is restricted by the court to deal with/dispose of or receive income from the frozen interests, however the Target Shareholder shall retain its management right over the subject company as a shareholder and can continue to exercise its shareholder's voting right to decide on any shareholders resolutions in relation to material corporate matters according to the articles of association of the subject company, including but not limited to the appointment or change of the directors and supervisors.

2. Financial impact

As disclosed in Note 23, with respect to the Group's legal proceedings, based on the Company's current knowledge and management estimation, the Group recorded a liability provision in the amount of RMB272,020,000 (unaudited) as at 30 June 2020 when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. However, the eventual outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

Based on the advice from the PRC legal advisers to the Company, the Company believes that the Freezing Orders enforced against Rundong automobile over the Frozen Interest of the Subject Entities will not bring direct material adverse impact to the Group's business operations during the period when such equity interests are frozen by the court, as Rundong Automobile will continue to enjoy its management right over the subject company as a shareholder.

For the financial year ended 31 December 2019, the aggregate revenue and loss attributed to the Subject Entities were approximately RMB3,589,354,000 and RMB2,413,778,000, respectively, representing approximately 47.0% and 41.3% of the total revenue and loss of the Group for the year. As at 30 June 2020, the net liabilities of the Subject Entities amounted to approximately RMB756,069,000 while the Group was in an overall net liability position amounted to approximately of RMB4,022,520,000.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of the directors on 31 August 2020.

润东汽车

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