HARMONY AUTO
和諧汽車

China Harmony Auto Holding Limited
中國和諧汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03836)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2013

HIGHLIGHTS:

- Our revenue for the six months ended June 30, 2013 amounted to approximately RMB3,659.4 million, representing an increase of 24.0% from approximately RMB2,951.9 million recorded in the corresponding period in 2012.
- Our gross profit for the six months ended June 30, 2013 amounted to approximately RMB467.8 million, representing an increase of 37.1% from approximately RMB341.2 million recorded in the corresponding period in 2012.
- Our net profit for the six months ended June 30, 2013 amounted to approximately RMB249.6 million, representing an increase of 51.8% from approximately RMB164.4 million recorded in the corresponding period in 2012.
- Basic and diluted earnings per share in the six months ended June 30, 2013 were RMB0.30.

BUSINESS OVERVIEW

As a leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China, China Harmony Auto Holding Limited (the "**Company**" or "**we**", together with its subsidiaries, the "**Group**") continued to focus on expanding our business and increasing our profit in the first half of 2013. We opened three outlets for operation in the first half of 2013, namely, Guangzhou Guangdebao 5S store, Xiamen Yuanda Lexus 4S store and Henan Yingzhiyi MINI 4S store, bringing the total number of outlets we operated to 25 as of June 30, 2013. As of the date of this announcement, we had three additional outlets that were opened for operation, namely, Zhenzhou Zhengdebao service center, Jiaozuo Yuanda Lexus 4S store and Beijing Maserati 4S store.

Despite recent uncertainties affecting the passenger vehicle market in China, including a general slow-down in the global economy, the Diaoyu Island dispute between Japan and China and the reported possible purchase tax on ultra-luxury passenger vehicles, we continued to experience increasing demand for luxury and ultra-luxury passenger vehicles in China in the first half of 2013. Our sales volume of new passenger vehicles in the six months ended June 30, 2013 was 7,044, representing a 30.3% increase from 5,407 in the six months ended June 30, 2012. In particular, our sales volume for BMW passenger vehicles increased by 34.8% from 4,692 in the six months ended June 30, 2012 to 6,327 in the six months ended June 30, 2013. However, our sales volume for Lexus passenger vehicles decreased by 36.6% from 689 in the six months ended June 30, 2012 to 437 in the six months ended June 30, 2013, primarily due to the continued negative impact of the Diaoyu Island dispute. The average selling price per passenger vehicle decreased from RMB0.51 million in the six months ended June 30, 2012 to RMB0.47 million in the six months ended June 30, 2013, as a result of the continued introduction of various mid to lower range models of luxury brands by certain automobile manufacturers.

Due to the general increase in market demand and the expansion of our sales network, our revenue for sales of new passenger vehicles increased by 21.1% from RMB2,761.3 million for the six months ended June 30, 2012 to RMB3,344.9 million for the six months ended June 30, 2013. Our gross profit margin for sales of new passenger vehicles was 9.4% in the six months ended June 30, 2013, which remained relatively stable when compared to the gross profit margin for sales of new passenger vehicles for the six month ended June 30, 2012.

After-sales services have become one of the most important drivers of our operation and our profit growth. We also benefited from our exclusive focus on luxury and ultra-luxury passenger vehicles, the owners of which are generally less price-sensitive and place higher value on after-sales service quality. Due to our strategic focus on after-sales services, as well as the expansion of our outlet network and the ramp-up of our newly-opened outlets, we achieved a 91.6% increase in gross profit generated from after-sales services in the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. Gross profit margin for after-sales services also increased from 42.0% in the six months ended June 30, 2012 to 48.8% in the six months ended June 30, 2013.

As part of our stated strategy of seeking to diversify our revenue sources, and as a natural extension and progression of our financing and insurance consulting services, we announced on August 9, 2013 that we are developing the provision of hire purchase financing of luxury and ultra-luxury passenger vehicles in China. Through our financing and insurance consulting services, we have been accumulating experience in providing financing consulting services and seeing firsthand how hire purchase financing services are carried out by the relevant service providers and we believe that it is the right time to start developing our own hire purchase financing services. We intend to start the services on a trial basis in our outlets in Henan Province.

INTERIM RESULTS

The board of directors (the "**Board**") of the Company is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2013. The unaudited consolidated results have been reviewed by the audit committee of the Company.

Interim Consolidated Income Statement

	Notes	**For the six months ended June 30, 2013 Unaudited** ***RMB'000***	For the six months ended June 30, 2012 Unaudited *RMB'000*
Revenue	*4(a)*	**3,659,406**	2,951,852
Cost of sales and services provided	*5(b)*	**(3,191,585)**	(2,610,652)
Gross profit		**467,821**	341,200
Other income and gains, net	*4(b)*	**168,441**	75,726
Selling and distribution costs		**(164,691)**	(108,706)
Administrative expenses		**(45,178)**	(27,411)
Profit from operations		**426,393**	280,809
Finance costs	*6*	**(82,161)**	(59,547)
Share of profit of an associate		**151**	–
Profit before tax	*5*	**344,383**	221,262
Tax	*7*	**(94,811)**	(56,856)
Profit for the period		**249,572**	164,406
Attributable to:			
Owners of the parent		**250,812**	164,576
Non-controlling interests		**(1,240)**	(170)
		249,572	164,406
Earnings per share attributable to ordinary equity holders of the parent:	*9*		
Basic (RMB)		**0.30**	0.21
Diluted (RMB)		**0.30**	0.21

Interim Consolidated Statement of Comprehensive Income

	For the six months ended June 30, 2013 Unaudited *RMB'000*	For the six months ended June 30, 2012 Unaudited *RMB'000*
PROFIT FOR THE PERIOD	**249,572**	164,406
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**257**	–
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	**257**	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**257**	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**249,829**	164,406
Attributable to:		
Owners of the parent	**251,069**	164,576
Non-controlling interests	**(1,240)**	(170)
	249,829	164,406

Interim Consolidated Statement of Financial Position

	Notes	**June 30, 2013 Unaudited** *RMB'000*	December 31, 2012 Audited *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,377,894**	1,149,926
Land use rights		**13,297**	13,497
Intangible assets		**3,187**	1,050
Prepayments		**48,660**	31,943
Investment in an associate		**6,373**	6,222
Deferred tax assets		**10,927**	10,092
Total non-current assets		**1,460,338**	1,212,730
CURRENT ASSETS			
Inventories	*10*	**1,238,837**	710,554
Trade receivables	*11*	**58,333**	59,112
Prepayments, deposits and other receivables		**909,460**	688,221
Amounts due from related parties		**2,416**	679,448
Pledged bank deposits		**852,660**	665,055
Cash in transit		**94,405**	17,333
Cash and cash equivalents		**2,190,254**	342,685
Total current assets		**5,346,365**	3,162,408
CURRENT LIABILITIES			
Bank loans and other borrowings	*12*	**2,306,918**	1,777,774
Trade and bills payables	*13*	**1,277,873**	818,129
Other payables and accruals		**741,324**	626,852
Income tax payable		**336,234**	255,415
Total current liabilities		**4,662,349**	3,478,170
NET CURRENT ASSETS/(LIABILITIES)		**684,016**	(315,762)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,144,354**	896,968
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	*12*	**57,037**	290,000
Deferred tax liabilities		**9,289**	4,929
Total non-current liabilities		**66,326**	294,929
NET ASSETS		**2,078,028**	602,039
EQUITY			
Equity attributable to owners of the parent			
Share capital		**8,633**	–
Reserves		**2,057,354**	588,758
		2,065,987	588,758
Non-controlling interests		**12,041**	13,281
Total equity		**2,078,028**	602,039

Notes to the Interim Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

The Company was incorporated on September 24, 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on June 13, 2013.

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

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Eagle Seeker Company Limited, which was incorporated in the British Virgin Islands ("BVI").

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The condensed consolidated interim financial statements for the six months period ended June 30, 2013 (the "Reporting Period") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year end December 31, 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The condensed consolidated interim financial statements were presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated. These condensed consolidated interim financial statements were approved for issue on August 27, 2013. These condensed consolidated interim financial statements have not been audited.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2012, except for the adoption of the new standards and interpretations as of January 1, 2013, noted below.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of these revised HKFRSs has had no significant financial effect on the interim condensed consolidated financial statements.

2.3 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKFRS 9	*Financial Instruments*[2]
HKFRS 10, HKFRS 12 and HKAS27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]

[1] Effective for annual periods beginning on or after January 1, 2014
[2] Effective for annual periods beginning on or after January 1, 2015

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

3. SEGMENT INFORMATION

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

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

Information about geographical area

Since all of the Group's revenue were generated from the sale and service of motor vehicles in Mainland China and all of the Group's non-current assets and were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the six months period ended June 30, 2013, no major customers segment information is presented in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	For the six months ended June 30, 2013 Unaudited ***RMB'000***	For the six months ended June 30, 2012 Unaudited *RMB'000*
Revenue from the sale of motor vehicles	**3,344,948**	2,761,326
Others	**314,458**	190,526
	3,659,406	2,951,852

(b) Other income and gains, net:

		For the six months ended June 30, 2013 Unaudited ***RMB'000***	For the six months ended June 30, 2012 Unaudited *RMB'000*
Commission income		**70,081**	23,399
Advertisement support received from motor vehicle manufacturers		**2,497**	2,212
Bank interest income		**19,004**	2,770
Interest income from the controlling shareholder	*(i)*	**66,077**	42,947
Net gain on disposal of items of property, plant and equipment		**142**	–
Others		**10,640**	4,398
		168,441	75,726

(i) Interest income from the controlling shareholder, Mr. Changge Feng, (the "**Controlling Shareholder**") was generated from loans the Group granted to the Controlling Shareholder which bore an annual interest rate of 15% during the period. Such loans were fully settled upon listing of the Company's shares on the Stock Exchange on June 13, 2013.

5. PROFIT BEFORE TAX

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

	For the six months ended June 30, 2013 Unaudited *RMB'000*	For the six months ended June 30, 2012 Unaudited *RMB'000*
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**53,176**	24,978
Other welfare	**9,545**	9,026
	62,721	34,004
(b) Cost of sales and services:		
Cost of sales of motor vehicles	**3,030,561**	2,500,200
Others	**161,024**	110,452
	3,191,585	2,610,652
(c) Other items		
Depreciation of items of property, plant and equipment	**31,623**	16,066
Amortisation of land use rights	**200**	200
Amortisation of intangible assets	**244**	162
Net (gain)/loss on disposal of items of property, plant and equipment	**(142)**	671
Advertisement and business promotion expenses	**37,040**	24,873
Bank charges	**4,089**	3,765
Lease expenses	**10,105**	10,284
Logistics and petroleum expenses	**5,612**	3,362
Office expenses	**9,610**	6,213

6. FINANCE COSTS

	For the six months ended June 30, 2013 Unaudited ***RMB'000***	For the six months ended June 30, 2012 Unaudited *RMB'000*
Interest expense on bank borrowings wholly repayable within five years	**85,820**	58,298
Interest expense on other borrowings	**13,782**	1,249
Less: Interest capitalised	**(17,441)**	–
	82,161	59,547

7. TAX

	For the six months ended June 30, 2013 Unaudited ***RMB'000***	For the six months ended June 30, 2012 Unaudited *RMB'000*
Current Mainland China corporate income tax	**91,286**	57,561
Deferred tax	**3,525**	(705)
	94,811	56,856

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

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries does 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 an income tax at the rate of 16.5% during the Relevant Periods. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate of the Mainland China subsidiaries is 25%.

8. DIVIDENDS

The Board of the Company has resolved not to declare any interim dividend for the six months period ended June 30, 2013 (six months period ended June 30, 2012: Nil).

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

Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holders of the parent by the weighted average number of shares in issue, during the six months period ended June 30, 2013 and June 30, 2012.

	For the six months ended June 30, 2013 Unaudited ***RMB'000***	For the six months ended June 30, 2012 Unaudited *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of parent	**250,812**	164,576

	For the six months ended June 30, 2013 Unaudited	For the six months ended June 30, 2012 Unaudited
Shares		
Weighted average number of ordinary shares in issue during the period	**825,984,122**	800,000,000
Effect of dilution – weighted average number of ordinary shares:		
– Restricted share	**1,804,918**	–
	827,789,040	800,000,000

The weighted average number of ordinary shares used to calculate the basic earnings per share in the six months ended June 30, 2012 was 800,000,000, which were deemed to have been issued throughout the period.

Earnings per share		
Basic (RMB)	**0.30**	0.21
Diluted (RMB)	**0.30**	0.21

10. INVENTORIES

	June 30, 2013 Unaudited *RMB'000*	December 31, 2012 Audited *RMB'000*
Motor vehicles	**1,167,952**	655,809
Spare parts and accessories	**70,885**	54,745
	1,238,837	710,554

11. TRADE RECEIVABLES

	June 30, 2013 Unaudited *RMB'000*	December 31, 2012 Audited *RMB'000*
Trade receivables	**58,333**	59,112

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	June 30, 2013 Unaudited *RMB'000*	December 31, 2012 Audited *RMB'000*
Within 3 months	**51,059**	54,222
More than 3 months but less than 1 year	**6,111**	4,890
Over 1 year	**1,163**	–
Total	**58,333**	59,112

12. BANK LOANS AND OTHER BORROWINGS

	June 30, 2013 Unaudited		December 31, 2012 Audited	
	Effective interest rate (%)	***RMB'000***	Effective interest rate (%)	*RMB'000*
Current				
Bank loans	**6.0-11.8**	**1,538,636**	6.2-12.0	1,283,000
Other borrowings	**5.8-8.5**	**768,282**	5.8-8.5	494,774
		2,306,918		1,777,774
Non-current				
Bank loans	**8.7**	**57,037**	6.6-7.2	60,000
Other borrowings	**–**	**–**	8.5	230,000
		57,037		290,000
		2,363,955		2,067,774

13. TRADE AND BILLS PAYABLES

	June 30, 2013 Unaudited *RMB'000*	December 31, 2012 Audited *RMB'000*
Trade payables	**21,538**	11,383
Bills payable	**1,256,335**	806,746
Trade and bills payables	**1,277,873**	818,129

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

	June 30, 2013 Unaudited *RMB'000*	December 31, 2012 Audited *RMB'000*
Within 3 months	**1,095,874**	777,735
3 to 6 months	**177,633**	37,193
6 to 12 months	**1,054**	2,836
Over 12 months	**3,312**	365
Total	**1,277,873**	818,129

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

FINANCIAL OVERVIEW

Revenue

Revenue was RMB3,659.4 million for the six months ended June 30, 2013, a 24.0% increase from RMB2,951.9 million in the six months ended June 30, 2012. This increase was primarily attributable to an increase in revenues from both sales of new passenger vehicles and after-sales services.

Revenue from sales of new passenger vehicles increased by 21.1% from RMB2,761.3 million for the six months ended June 30, 2012 to RMB3,344.9 million for the six months ended June 30, 2013, which was primarily attributable to an increase in sales volumes, as a result of the continuing increase in demand for luxury and ultra-luxury passenger vehicles in China.

Revenue from after-sales services increased by 65.1% from RMB190.5 million in the six months ended June 30, 2012 to RMB314.5 million in the six months ended June 30, 2013, primarily attributable to the increased after-sale services generated from our growing customer base. Revenue from after-sales services accounted for 8.6% of the total revenue in the six months ended June 30, 2013, as compared to 6.5% in the six months ended June 30, 2012, primarily as a result of our efforts to promote after-sales services which have a higher profit margin than sales of new passenger vehicles.

Cost of sales and services provided

Our cost of sales and services provided increased by 22.3% from RMB2,610.7 million in the six months ended June 30, 2012 to RMB3,191.6 million in the six months ended June 30, 2013, largely in line with the increase of our revenue. Cost of sales attributable to sales of new passenger vehicles increased by 21.2% from RMB2,500.2 million in the six months ended June 30, 2012 to RMB3,030.6 million in the six months ended June 30, 2013. Cost of sales attributable to after-sales services increased by 45.7% from RMB110.5 million in the six months ended June 30, 2012 to RMB161.0 million in the six months ended June 30, 2013.

Gross profit and gross profit margin

As a result of foregoing, our gross profit increased by 37.1% from RMB341.2 million in the six months ended June 30, 2012 to RMB467.8 million in the six months ended June 30, 2013. Our gross profit margin was 12.8% in the six months ended June 30, 2013 as compared to 11.6% in the six months ended June 30, 2012.

Gross profit from sales of new passenger vehicles increased by 20.4% from RMB261.1 million in the six months ended June 30, 2012 to RMB314.4 million in the six months ended June 30, 2013. Gross profit margin was 9.4% in the six months ended June 30, 2013, largely unchanged as compared to 9.5% in the six months ended June 30, 2012.

Gross profit from after-sales services increased by 91.6% from RMB80.1 million in the six months ended June 30, 2012 to RMB153.4 million in the six months ended June 30, 2013, primarily attributable to our continued strategic focus on improving our after-sales services. Gross profit margin was 48.8% in the six months ended June 30, 2013, as compared to 42.0% in the six months ended June 30, 2012, and the increase was primarily attribute to the increase in after-sales rates we charged.

Other income and net gain (excluding interest income from the controlling shareholder)

Other income and net gain (excluding interest income from the controlling shareholder, Mr. Changge Feng (the "**Controlling Shareholder**")) increased by 212% from RMB32.8 million in the six months ended June 30, 2012 to RMB102.4 million in the six months ended June 30, 2013, and the increase was primarily due to:

- a 200% increase in commission income from RMB23.4 million in the six months ended June 30, 2012 to RMB70.1 million in the six months ended June 30, 2013, primarily attributable to (i) the increase in sales volume of new passenger vehicles; (ii) the increasing number of purchases of new passenger vehicles through financing services provided by manufacturers as compared to with cash; and (iii) the increasing number of customers who used the insurance we referred in connection with purchases of new passenger vehicles; and

- a significant increase in bank interest income from RMB2.8 million in the six months ended June 30, 2012 to RMB19.0 million in the six months ended June 30, 2013, primarily attributable to the increase of our bank deposit, including the proceeds from the global offering.

Interest income from the Controlling Shareholder

Interest income from the Controlling Shareholder increased by 54.1% from RMB42.9 million in the six months ended June 30, 2012 to RMB66.1 million in the six months ended June 30, 2013, primarily due to the increase in the amount of loan we granted to the Controlling Shareholder which bore an annual interest rate of 15%. Such loan was repaid in full as of June 30, 2013.

Profit for the period

As a result of the foregoing, our profit in the six months ended June 30, 2013 was RMB249.6 million, a 51.8% increase from RMB164.4 million in the six months ended June 30, 2012. Our adjusted profit excluding interest income from the Controlling Shareholder and the related tax impact in the six months ended June 30, 2013 would be RMB200.0 million, representing a 51.3% increase from RMB132.2 million in the six months ended June 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

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

Our net cash used in operating activities was RMB79.6 million in the six months ended June 30, 2013, as compared to net cash generated from operating activities of RMB485.4 million in the six month ended June 30, 2012. Net cash used in investing activities was RMB173.9 million and RMB930.9 million in the six months ended June 30, 2013 and 2012, respectively. Net cash generated from financing activities was RMB1,420.3 million and RMB648.6 million in the six months ended June 30, 2013 and 2012, respectively.

Taking into account our existing cash and cash equivalents, anticipated cash flow from our operating activities, available bank loans and other borrowings and the net proceeds from the initial public offering, the Board believes that our liquidity needs will be satisfied.

Net current assets

As of June 30, 2013, we had net current assets of RMB684.0 million, as compared to net current liabilities of RMB315.8 million as of June 30, 2012.

Capital expenditure

Our capital expenditure, which was primarily in respect of the purchase of items of property, plant and equipment in connection of establishment of new outlets, was RMB302.4 million in the six months ended June 30, 2013.

Inventory

Our inventories primarily consisted of new passenger vehicles, spare parts and automobile accessories. Each of our outlets individually manages its orders for new passenger vehicles and after-sales products, but a monthly report is submitted by each outlet to our headquarters for review.

Our inventories increased by 74.3% from RMB710.6 million as of December 31, 2012 to RMB1,238.8 million as of June 30, 2013, primarily due to an increase in our inventory of new passenger vehicles by 78.1% from RMB655.8 million as of December 31, 2012 to RMB1,168.0 million as of June 30, 2013. The increase in our inventories as of June 30, 2013 was due to the increase in demand and the addition of three dealership outlets which commenced operation during the six months ended June 30, 2013.

Our average inventory turnover days in the six months ended June 30, 2013 were 55.7 days, which increased from 38 days for the year ended December 31, 2012, as we build up our inventories for the newly-opened outlets.

Bank loans and other borrowings

As of June 30, 2013, we had bank loans and other borrowings in the aggregate amount of RMB2,364.0 million, as compared to RMB2,067.8 million as of December 31, 2012. The table below sets forth breakdowns of our bank loans and other borrowings as of the indicated dates:

	June 30, 2013 Unaudited *RMB'000*	December 31, 2012 Audited *RMB'000*
Bank loans repayable:		
Within one year or on demand	**1,538,636**	1,283,000
In the second year	**–**	60,000
In the third to fifth years	**57,037**	–
	1,595,673	1,343,000
Other borrowings repayable:		
Within one year or on demand	**768,282**	494,774
In the second year	**–**	230,000
	768,282	724,774
Total	**2,363,955**	2,067,774

Our gearing ratio, which is calculated by net debt (total debt minus cash and cash equivalents) divided by the total equity attributable to owners of the parent plus net debt, was 51.5% for the six months ended June 30, 2013.

As of June 30, 2013, certain of our bank loans and other borrowings were secured by mortgages or pledges over our assets. Our assets subject to these mortgages or pledges as of June 30, 2013 consisted of (i) inventories in the amount of RMB562.5 million; (ii) property, plant and equipment in the amount of RMB36.4 million; (iii) land use rights in the amount of RMB13.3 million; and (iv) equity interest in our various subsidiaries. In addition, certain of our bank loans and other borrowings were guaranteed by the Controlling Shareholder or affiliates of the Controlling Shareholder.

Contingent liabilities

As of June 30, 2013, we did not have any material contingent liabilities or guarantees.

Interest rate risk and foreign exchange risk

We are exposed to interest rate risk resulting from fluctuations in interest rate on our debt. Certain of our borrowings have floating interest rates that are mostly linked to the benchmark rates of the People's Bank of China. Increases in interest rate could result in an increase in our cost of borrowing. If this occurs, it could adversely affect our finance costs, profit and our financial condition. The interest rates on bank loans and overdrafts in China depend on the benchmark lending rates published by the People's Bank of China. We do not currently use any derivative instruments to manage our interest rate risk.

Substantially all of our revenue, cost of revenue and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. We do not believe our operations are currently subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

Employees and remuneration policies

As at June 30, 2013, the Group had a total of 2,222 employees (December 31, 2012: 1,428 employees). Relevant staff cost for the six months ended June 30, 2013 was approximately RMB62.7 million while our staff cost was approximately RMB34.0 million for the corresponding period of 2012. The Group will regularly review its remuneration policy and the benefits to its employees with reference to market practice and the performance of individual employees.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the period commencing from the date of the listing of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 13, 2013 (the "**Listing Date**") through to June 30, 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended June 30, 2013.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the period commencing from the Listing Date through to June 30, 2013, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the period from the Listing Date to June 30, 2013.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the Listing Rules and the Code. As at the date of this announcement, the Audit Committee consists of three members, namely Mr. Xiao Changnian, Mr. Liu Zhangmin and Mr. Xue Guoping, all of whom are independent non-executive directors of the Company. Mr. Xiao Changnian is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim results for the six months ended June 30, 2013.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The interim results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and that of the Company (http://www.hexieauto.com). The interim report will be dispatched to the shareholders and will be available on the website of the Stock Exchange and that of the Company in due course.

By Order of the Board
CHINA HARMONY AUTO HOLDING LIMITED
Feng Changge
Chairman and Executive Director

PRC, August 27, 2013

As of the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Yu Feng, Mr. Fong Heung Sang, Addy (Dexter), Mr. Yang Lei, Mr. Cui Ke, Ms. Liu Wei and Ms. Ma Lintao, the non-executive director of the Company is Mr. Wang Nengguang, and the independent non-executive directors of the Company are Mr. Xiao Changnian, Mr. Liu Zhangmin, Mr. Li Daomin and Mr. Xue Guoping.