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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2013

HIGHLIGHTS:

- Our revenue for the year ended December 31, 2013 amounted to approximately RMB8,332.7 million, representing an increase of 47.3% from approximately RMB5,656.7 million recorded in the corresponding period in 2012.
- Our gross profit for the year ended December 31, 2013 amounted to approximately RMB997.1 million, representing an increase of 50.3% from approximately RMB663.4 million recorded in the corresponding period in 2012.
- Our net profit for the year ended December 31, 2013 amounted to approximately RMB407.1 million, representing an increase of 16.1% from approximately RMB350.7 million recorded in the corresponding period in 2012.
- Basic and diluted earnings per share in the year ended December 31, 2013 were RMB0.42.
- Proposed a final dividend of HK8 cents per ordinary share.

ANNUAL RESULTS

The board of directors (the "**Board**") of China Harmony Auto Holding Limited (the "**Company**" or "**We**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended December 31, 2013. The audited consolidated results have been reviewed by the audit committee of the Company.

Consolidated Statement of Profit or Loss

		Year ended December 31	
		2013	2012
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4(a)*	**8,332,749**	5,656,744
Cost of sales and services	*5(b)*	**(7,335,607)**	(4,993,298)
Gross profit		**997,142**	663,446
Other income and gains, net	*4(b)*	**303,160**	236,658
Selling and distribution costs		**(426,408)**	(237,030)
Administrative expenses		**(117,584)**	(71,611)
Profit from operations		**756,310**	591,463
Finance costs	*6*	**(194,839)**	(116,403)
Share of profit of an associate		**501**	222
Profit before tax	*5*	**561,972**	475,282
Income tax expense	*7*	**(154,847)**	(124,563)
Profit for the year		**407,125**	350,719
Attributable to:			
Owners of the parent		**404,135**	350,822
Non-controlling interests		**2,990**	(103)
		407,125	350,719
Earnings per share attributable to ordinary equity holders of the parent	*9*		
Basic (RMB)		**0.42**	0.44
Diluted (RMB)		**0.42**	0.44

Consolidated Statement of Comprehensive Income

	Year ended December 31	
	2013	2012
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**407,125**	350,719
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,311**	(15)
Other comprehensive income for the year, net of tax	**1,311**	(15)
Total comprehensive income for the year, net of tax	**408,436**	350,704
Attributable to:		
Owners of the parent	**405,446**	350,807
Non-controlling interests	**2,990**	(103)
	408,436	350,704

Consolidated Statement of Financial Position

	Notes	As at December 31 2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,722,102**	1,149,926
Land use rights		**13,097**	13,497
Intangible assets		**4,381**	1,050
Prepayments		**104,444**	31,943
Investment in an associate		**6,523**	6,222
Deferred tax assets		**17,338**	10,092
Total non-current assets		**1,867,885**	1,212,730
CURRENT ASSETS			
Inventories	*10*	**1,526,794**	710,554
Trade receivables	*11*	**116,777**	59,112
Prepayments, deposits and other receivables		**1,319,910**	688,221
Amounts due from related parties		**37,495**	679,448
Pledged bank deposits		**741,775**	665,055
Cash in transit		**34,012**	17,333
Cash and cash equivalents		**1,964,365**	342,685
Total current assets		**5,741,128**	3,162,408
CURRENT LIABILITIES			
Bank loans and other borrowings		**2,672,045**	1,777,774
Trade and bills payables	*12*	**1,363,883**	818,129
Other payables and accruals		**937,299**	626,852
Income tax payable		**338,152**	255,415
Total current liabilities		**5,311,379**	3,478,170
NET CURRENT ASSETS/(LIABILITIES)		**429,749**	(315,762)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,297,634**	896,968
NON-CURRENT LIABILITIES			
Bank loans and other borrowings		**48,240**	290,000
Deferred tax liabilities		**12,274**	4,929
Total non-current liabilities		**60,514**	294,929
NET ASSETS		**2,237,120**	602,039
EQUITY			
Equity attributable to owners of the parent			
Share capital		**8,633**	–
Reserves		**2,144,965**	588,758
Proposed final dividend	*8*	**67,251**	–
		2,220,849	588,758
Non-controlling interests		**16,271**	13,281
TOTAL EQUITY		**2,237,120**	602,039

Notes to 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 address of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on June 13, 2013 (the "Listing Date").

The Company is an investment holding company. The Group were principally engaged in the sale and service of motor vehicles in Mainland China.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
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 new and revised HKFRSs has had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

Since all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments.*

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customers information is presented in accordance with HKFRS 8 *Operating Segments.*

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and the value of services rendered after allowances for returns, trade discounts, where applicable.

	2013	2012
	RMB'000	*RMB'000*
Revenue from the sale of motor vehicles	**7,609,854**	5,244,449
Others	**722,895**	412,295
	8,332,749	5,656,744

(b) Other income and gains, net:

		2013	2012
	Note	***RMB'000***	*RMB'000*
Commission income		**161,587**	61,141
Advertisement support received from motor vehicle manufacturers		**7,814**	5,326
Bank interest income		**38,372**	8,429
Interest income from the Controlling Shareholder	*(i)*	**66,077**	147,740
Interest income from third parties		**7,511**	–
Others		**21,799**	14,022
Total		**303,160**	236,658

(i) Interest income from the controlling shareholder, Mr. Feng Changge (the "Controlling Shareholder"), was generated from loans the Group granted to the Controlling Shareholder before the Company's Listing, which bore an annual interest rate of 15% during the year (2012: 15%).

5. PROFIT BEFORE TAX

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

(a) Employee benefit expense (including directors' and chief executive's remuneration):

	2013	2012
	RMB'000	*RMB'000*
Wages and salaries	**125,539**	61,664
Equity-settled share award expense	**23,848**	–
Other welfare	**23,238**	20,847
	172,625	82,511

(b) Cost of sales and services:

	2013	2012
	RMB'000	*RMB'000*
Cost of sales of motor vehicles	**6,944,839**	4,762,592
Others	**390,768**	230,706
	7,335,607	4,993,298

(c) Other items

	2013	2012
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**73,984**	37,368
Amortisation of land use rights	**400**	400
Amortisation of intangible assets	**720**	334
Auditors' remuneration	**3,671**	103
Advertisement and business promotion expenses	**103,435**	51,989
Bank charges	**9,650**	9,285
Lease expenses	**46,454**	18,649
Logistics and petroleum expenses	**25,495**	15,103
Office expenses	**10,880**	11,015
Net loss on disposal of items of property, plant and equipment	**6,810**	1,630
Foreign exchange differences, net	**425**	3

6. FINANCE COSTS

	2013	2012
	RMB'000	*RMB'000*
Interest expense on bank borrowings wholly repayable within five years	**197,776**	131,275
Interest expense on other borrowings	**27,628**	4,844
Less: Interest capitalised	**(30,565)**	(19,716)
	194,839	116,403

7. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2013	2012
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**154,748**	122,994
Deferred tax	**99**	1,569
	154,847	124,563

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-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

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

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

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

(b) Reconciliation between tax expense and accounting profit at the applicable tax rate:

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the region in which the Company and its subsidiaries domiciled to the tax expense at the effective tax rate is as follows:

	2013	2012
	RMB'000	*RMB'000*
Profit before tax	**561,972**	475,282
Tax at the applicable tax rate (25%)	**140,493**	118,821
Profit attributable to an associate	**(125)**	(56)
Tax effect of non-deductible expenses	**6,385**	5,798
Tax losses not recognised	**8,094**	–
Tax charge	**154,847**	124,563

8. DIVIDEND

	2013	2012
	RMB'000	*RMB'000*
Proposed final-HK8 cents (2012: Nil) per ordinary share	**67,251**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of parent, and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the share award scheme.

The calculation of the diluted earnings per share amount is based on the profit for the year 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 used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme.

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

Earnings

	2013	2012
	RMB'000	*RMB'000*
Profit for the year attributable to ordinary equity holders of the parent	**404,135**	350,822

Shares

	2013	2012
Weighted average number of ordinary shares in issue	**952,261,512**	800,000,000
Effect of dilution – weighted average number of ordinary shares:		
–Restricted shares	**637,966**	–
	952,899,478	800,000,000

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended December 31, 2012 was 800,000,000, which were deemed to have been issued throughout the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended December 31, 2013 includes the weighted average of 275,126,000 shares issued in connection with the Company's IPO as defined in the prospectus dated May 31, 2013 and the aforesaid 800,000,000 ordinary shares.

10. INVENTORIES

	2013	2012
	RMB'000	*RMB'000*
Motor vehicles	**1,441,076**	655,809
Spare parts and accessories	**85,718**	54,745
	1,526,794	710,554

At December 31, 2013, certain of the Group's inventories with an aggregate carrying amount of approximately RMB432,000,000 (2012: RMB242,559,000) were pledged as security for the Group's bank loans and other borrowings.

At December 31, 2013, certain of the Group's inventories with an aggregate carrying amount of approximately RMB419,220,000 (2012: RMB165,826,000) were pledged as security for the Group's bills payable.

11. TRADE RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**116,777**	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. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. 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:

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**112,794**	54,222
More than 3 months but less than 1 year	**3,983**	4,890
	116,777	59,112

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

	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	**116,777**	59,112

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

12. TRADE AND BILLS PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**51,002**	11,383
Bills payable	**1,312,881**	806,746
Trade and bills payables	**1,363,883**	818,129

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

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**1,161,408**	777,735
3 to 6 months	**201,558**	37,193
6 to 12 months	**834**	2,836
Over 12 months	**83**	365
	1,363,883	818,129

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

As a leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China, the Company continued to focus on expanding our business and increasing our profit in 2013. We opened 12 outlets for operation in 2013, namely, Guangzhou Guangdebao 5S store, Xiamen Yuanda Lexus 4S store, Henan Yingzhiyi MINI 4S store, Zhenzhou Zhengdebao service center, Jiaozuo Yuanda Lexus 4S store, Luoyang MINI exhibition gallery, Jiaozuo BMW exhibition gallery, Beijing Haojunhang Maserati 3S store, Beijing Huajunhang Maserati exhibition gallery, Wuhan Handebao 4S store, Xinxiang Hedebao 4S store and Luohe Luodebao 4S store, bringing the total number of outlets we operated to 34 as of December 31, 2013. As of the date of this announcement, Xi'an Rolls-Royce Service Centre, a newly opened outlet of the Company, commenced its operation.

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, deteriorating European debt crisis and the reported possible purchase tax on ultra-luxury passenger vehicles, the passenger vehicle market in China showed rapid growth, mainly driven by vigorous demand for luxuries as domestic income per capita continued to increase. In line with the growth of passenger vehicle market, we continued to experience increasing demand for luxury and ultra-luxury passenger vehicles in China in 2013. Our sales volume of new passenger vehicles in 2013 was 15,948, representing a 46.7% increase from 10,872 in 2012. In particular, our sales volume for BMW passenger vehicles increased by 44.7% from 9,678 in 2012 to 14,008 in 2013. Although we opened 2 new Lexus 4S stores in 2013, our sales volume for Lexus passenger vehicles only increased slightly by 15.2% from 1,120 in 2012 to 1,290 in 2013, primarily due to the continued negative impact of the Diaoyu Island dispute. The average selling price per passenger vehicle decreased from RMB482,000 in 2012 to RMB477,000 in 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 45.1% from RMB5,244.4 million in 2012 to RMB7,609.8 million in 2013. Our gross profit margin for sales of new passenger vehicles was 8.7% in 2013, slightly decreased from 9.2% in 2012 primarily due to the introduction of various mid to lower range models of luxury brands by certain automobile manufacturers.

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 usually prefer high service quality to competitive pricing. Due to the higher gross profit margin and less competition of after-sales services as compared to sales of passenger vehicles, and in consideration of factors such as the large investment amount and long return period of 4S stores, the Company shifted its strategic focus in 2013 from rapid expansion in new 4S stores to the promotion and enhancement of after-sales services.

As the sales of luxury and ultra-luxury passenger vehicles in China continued to increase, the demand for after-sales services also ramped up accordingly. The Company will focus on the development of comprehensive after-sales services for luxury vehicles, and provide repair services for all luxury passenger vehicles at the 4S/5S stores out-of-warranty through the establishment of comprehensive after-sales service centers. As of December 31, 2013, we have finished construction of 10 comprehensive after-sales service centers, namely Xinxiang Dashouhou, Zhengzhou Dashouhou, Xi'an Dashouhou, Shanghai Dashouhou, Luoyang Dashouhou, Anyang Dashouhou, Beijing Dashouhou, Luohe Dashouhou, Shangqiu Dashouhou and Guangzhou Dashouhou. Among them, five comprehensive after-sales service centers had duly commenced operation as of December 31, 2013, namely Xinxiang Dashouhou, Zhengzhou Dashouhou, Xi'an Dashouhou, Shanghai Dashouhou and Luoyang Dashouhou. The other five comprehensive after-sales service centers were in the trial operation phase. As of the date of this announcement, we started trial operation for five more comprehensive after-sales service centers, namely Zhengzhou Dashouhou No. 2, Puyang Dashouhou, Jiaozuo Dashouhou, Changyuan Dashouhou and Hebi Dashouhou. The number of comprehensive after-sales service centers is expected to reach 40 to 50 as of December 31, 2014.

Due to our strategic focus on after-sales services, as well as the development of our outlet network, we achieved an 82.9% increase in gross profit generated from after-sales services in 2013 as compared to 2012. Gross profit margin for after-sales services also increased from 44.0% in 2012 to 45.9% in 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 intended to develop the provision of hire purchase financing of luxury and ultra-luxury passenger vehicles in China. We intend to start the services on a trial basis in our outlets in Henan Province.

FINANCIAL OVERVIEW

Revenue

Revenue in 2013 was RMB8,332.7 million, a 47.3% increase from RMB5,656.7 million in 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 45.1% from RMB5,244.4 million in 2012 to RMB7,609.8 million in 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 and the establishment of new outlets by the Company.

Revenue from after-sales services increased by 75.3% from RMB412.3 million in 2012 to RMB722.9 million in 2013, primarily attributable to the increased after-sale services generated from our growing customer base. Revenue from after-sales services accounted for 8.7% of the total revenue in 2013, as compared to 7.3% in 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, and our focus on developing after-sales operations.

Cost of sales and services provided

Our cost of sales and services provided increased by 46.9% from RMB4,993.3 million in 2012 to RMB7,335.6 million in 2013, largely in line with the increase of our revenue. Cost of sales attributable to sales of new passenger vehicles increased by 45.8% from RMB4,762.6 million in 2012 to RMB6,944.8 million in 2013. Cost of sales attributable to after-sales services increased by 69.4% from RMB230.7 million in 2012 to RMB390.8 million in 2013.

Gross profit and gross profit margin

As a result of foregoing, our gross profit increased by 50.3% from RMB663.4 million in 2012 to RMB997.1 million in 2013. Our gross profit margin was 12.0% in 2013 as compared to 11.7% in 2012.

Gross profit from sales of new passenger vehicles increased by 38.0% from RMB481.9 million in 2012 to RMB665.0 million in 2013. Our gross profit margin was 8.7% in 2013, a 0.5% decrease from 9.2% in 2012, primarily attributable to the sales promotion in outlets through an appropriate price reduction to occupy more market share. Since gross profit margins for sales of luxury and ultra-luxury passenger vehicles are typically higher than those of mid- to high-end passenger vehicles, and our dominant market position in Henan Province provided us enhanced pricing power in new passenger vehicle sales, our gross profit margins for sales of new passenger vehicles are generally higher and less affected by brand mix compared with dealerships that have a mixed portfolio.

Gross profit from after-sales services increased by 82.9% from RMB181.6 million in 2012 to RMB332.1 million in 2013, primarily attributable to our continued strategic focus on improving our after-sales services. Our gross profit margin was 45.9% in 2013, as compared to 44.0% in 2012, and the increase was primarily attributable 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 167% from RMB88.9 million in 2012 to RMB237.1 million in 2013, and the increase was primarily due to:

- a 164% increase in commission income from RMB61.1 million in 2012 to RMB161.6 million in 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 357% increase in bank interest income from RMB8.4 million in 2012 to RMB38.4 million in 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 decreased by 55.3% from RMB147.7 million in 2012 to RMB66.1 million in 2013, primarily because the loan we granted to the Controlling Shareholder which bore an annual interest rate of 15% was repaid in full as of June 30, 2013.

Profit for the year

As a result of the foregoing, our profit in 2013 was RMB407.1 million, a 16.1% increase from RMB350.7 million in 2012. Our adjusted profit excluding interest income from the Controlling Shareholder and the related tax impact in 2013 would be RMB357.6 million, representing a 49.1% increase from RMB239.9 million in 2012. Included in the net profit was a pre-tax non-cash charge of RMB23.8 million in respect of equity-settled share award.

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 after-sales 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 generated from operating activities was RMB260.6 million and RMB91.0 million in 2013 and 2012, respectively. Net cash used in investing activities was RMB1,450.6 million and RMB1,202.1 million in 2013 and 2012, respectively. Net cash generated from financing activities was RMB1,629.9 million and RMB1,274.4 million in 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 December 31, 2013, we had net current assets of RMB429.7 million, as compared to net current liabilities of RMB315.8 million as of December 31, 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 RMB693.4 million during the year ended December 31, 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 114.9% from RMB710.6 million as of December 31, 2012 to RMB1,526.8 million as of December 31, 2013, primarily due to an increase in our inventory of new passenger vehicles by 119.7% from RMB655.8 million as of December 31, 2012 to RMB1,441.1 million as of December 31, 2013. The increase in our inventories as of December 31, 2013 was due to the increase in demand and the addition of 12 dealership outlets and five after-sales outlets which commenced operation in 2013.

Our average inventory turnover days in 2013 were 55 days, which increased from 38 days in 2012, as we build up our inventories for the newly-opened outlets.

Bank loans and other borrowings

As of December 31, 2013, we had bank loans and other borrowings in the aggregate amount of RMB2,720.3 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:

	December 31, 2013	December 31, 2012
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year or on demand	**1,951,447**	1,283,000
In the second year	**15,360**	60,000
In the third to fifth years	**32,880**	–
	1,999,687	1,343,000
Other borrowings repayable:		
Within one year or on demand	**720,598**	494,774
In the second year	**–**	230,000
	720,598	724,774
Total	**2,720,285**	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 57.9% as of December 31, 2013.

As of December 31, 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 December 31, 2013 consisted of (i) inventories in the amount of RMB432.0 million; (ii) property, plant and equipment in the amount of RMB35.1 million; and (iii) land use rights in the amount of RMB13.1 million. 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 December 31, 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 of December 31, 2013, the Group had a total of 2,584 employees (December 31, 2012: 1,428 employees). Relevant staff cost in 2013 was approximately RMB172.6 million (including employee share incentive of RMB23.8 million), while our staff cost was approximately RMB82.5 million in 2012. Pursuant to the restricted share unit scheme ("**RSU Scheme**") adopted by the Company in May 2013 and amended by the Board with the consent from each RSU Scheme participant in August 2013, there were a total of 19,110,898 share underlying the RSU Scheme outstanding and granted to several directors, senior management members and employees of the Group as at December 31, 2013, five of which are Directors. No RSU awards have been vested to any RSU Scheme participant for the year ended December 31, 2013. Please refer to the 2013 annual report of the Company, which will be issued in due course, for further details of the RSU Scheme. 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 Listing Date of the Company on the Stock Exchange through to December 31, 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK8 cents per ordinary share for the year ended December 31, 2013, subject to the approval of such final dividend by the shareholders at the forthcoming annual general meeting.

Details in relation to the closure of register of members of the Company for the purpose of determining members who are qualified for the proposed final dividend will be announced separately.

CHANGE OF ADDRESS OF HONG KONG SHARE REGISTRAR

With effect from March 31, 2014, the Hong Kong share registrar and transfer office of the Company, Tricor Investor Services Limited (the "**Share Registrar**"), will change its address from 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong to

Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

All telephone and facsimile numbers of the Share Registrar will remain unchanged.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the period commencing from the Listing Date through to December 31, 2013, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG 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 CG 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 December 31, 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 CG 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 annual results for the year ended December 31, 2013.

ANNUAL GENERAL MEETING

The 2014 annual general meeting of the Company is scheduled to be held on June 25, 2014 (the "**2014 AGM**"). A notice convening the 2014 AGM with details of the relevant closure of register of members for determining the entitlement of the shareholders to attend and vote at the 2014 AGM (if applicable) will be issued and disseminated to shareholders of the Company in due course.

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

The annual 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 annual 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, March 30, 2014

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 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.