HARMONY AUTO
和諧汽車

China Harmony New Energy Auto Holding Limited
中國和諧新能源汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03836)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

RESULTS HIGHLIGHTS:

For the six months ended 30 June 2016:

- Revenue of the Group amounted to approximately RMB4,928.2 million, of which, revenue from new vehicle sales decreased by 4.9% to RMB4,011.4 million and revenue from after-sales services increased by 15.8% to RMB916.8 million as compared with the same period of 2015.

- Gross profit of the Group amounted to approximately RMB611.1 million, which was an increase of 11.6% over the corresponding period in 2015, among which, gross profit of after-sales services amounted to approximately RMB428.6 million, accounting for 70.1% of the gross profit of the Group and representing an increase of 3.4 percentage points over the same period in 2015.

- Gross profit margin of the Group was 12.4%, representing a year-on-year increase of 1.5 percentage points as compared with the first half of 2015 and a half-on-half increase of 2.2 percentage points over the second half of 2015. Among which, gross profit margin of new vehicle sales was 4.5%, which was a year-on-year increase of 0.2 percentage point as compared with the first half of 2015, and a half-on-half increase of 0.7 percentage point as compared with the second half of 2015; and gross profit margin of after-sales services was 46.8%, representing a year-on-year increase of 0.6 percentage point over the first half of 2015 and a half-on-half increase of 2.7 percentage points over the second half of 2015.

- The commission income (mainly from insurance agency, vehicle financing agency and pre-owned cars agency services) of the Group was approximately RMB133.4 million, representing an increase of 1.6% as compared with the same period of 2015.

- Earnings before interest, taxes, depreciation, and amortization (EBITDA) amounted to approximately RMB553.9 million, representing an increase of 4.8% as compared with the same period of 2015.

- Profit for the period of the Group attributable to owners of the parent was approximately RMB306.1 million, representing an increase of 9.6% over the corresponding period of 2015.

- Excluding the expenses of restricted share unit scheme and share option scheme, profit for the period of the Group attributable to owners of the parent was approximately RMB317.2 million, representing an increase of 10.4% over the corresponding period of 2015.

- Basic and diluted earnings per share were RMB0.20 and RMB0.20, respectively.

INTERIM RESULTS

The board of directors (the "**Board**") of China Harmony New Energy Auto Holding Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2016. The unaudited consolidated results have been reviewed by the audit committee of the Company.

Interim Consolidated Statement of Profit or Loss
For the six months ended 30 June 2016

	Notes	**For the six months ended 30 June 2016 Unaudited** ***RMB'000***	For the six months ended 30 June 2015 Unaudited *RMB'000*
Revenue	*4(a)*	**4,928,161**	5,008,101
Cost of sales and services	*5(b)*	**(4,317,071)**	(4,460,364)
Gross profit		**611,090**	547,737
Other income and gains, net	*4(b)*	**267,737**	248,649
Selling and distribution expenses		**(319,631)**	(281,417)
Administrative expenses		**(75,065)**	(49,351)
Profit from operations		**484,131**	465,618
Finance costs	*6*	**(50,843)**	(84,662)
Share of profits and losses of			
Joint ventures		**(7,233)**	–
Associates		**(5,167)**	386
Profit before tax	*5*	**420,888**	381,342
Income tax expense	*7*	**(111,868)**	(98,889)
Profit for the period		**309,020**	282,453
Attributable to:			
Owners of the parent		**306,134**	279,330
Non-controlling interests		**2,886**	3,123
		309,020	282,453
Earnings per share attributable to ordinary equity holders of the parent	*9*		
Basic (RMB)		**0.20**	0.22
Diluted (RMB)		**0.20**	0.21

Interim Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2016

	For the six months ended 30 June 2016 Unaudited *RMB'000*	For the six months ended 30 June 2015 Unaudited *RMB'000*
PROFIT FOR THE PERIOD	**309,020**	282,453
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**25,887**	(6,833)
Other comprehensive income/(loss) for the period, net of tax	**25,887**	(6,833)
Total comprehensive income for the period, net of tax	**334,907**	275,620
Attributable to:		
Owners of the parent	**332,021**	272,497
Non-controlling interests	**2,886**	3,123
	334,907	275,620

Interim Consolidated Statement of Financial Position
As at 30 June 2016

	Notes	**30 June 2016 Unaudited** *RMB'000*	31 December 2015 Audited *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,858,392**	2,842,151
Land use rights		**12,097**	12,297
Intangible assets		**5,875**	5,923
Prepayments	*10*	**512,181**	205,365
Investments in joint ventures		**392,180**	399,413
Investments in associates		**156,705**	7,872
Deferred tax assets		**66,657**	52,030
Total non-current assets		**4,004,087**	3,525,051
CURRENT ASSETS			
Inventories	*11*	**1,322,916**	1,273,497
Trade receivables	*12*	**95,663**	86,369
Prepayments, deposits and other receivables	*13*	**2,196,850**	1,951,726
Structured deposits		**–**	305,000
Pledged bank deposits		**252,283**	384,298
Cash in transit		**40,719**	39,435
Cash and cash equivalents		**3,181,394**	3,489,888
Total current assets		**7,089,825**	7,530,213
CURRENT LIABILITIES			
Bank loans and other borrowings	*14*	**2,388,826**	2,395,092
Trade and bills payables	*15*	**593,170**	864,094
Other payables and accruals		**1,216,040**	1,183,211
Income tax payable		**787,947**	683,244
Total current liabilities		**4,985,983**	5,125,641
NET CURRENT ASSETS		**2,103,842**	2,404,572
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,107,929**	5,929,623

	Notes	**30 June 2016 Unaudited** *RMB'000*	31 December 2015 Audited *RMB'000*
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	*14*	**11,120**	21,360
Deferred tax liabilities		**24,242**	21,196
Total non-current liabilities		**35,362**	42,556
NET ASSETS		**6,072,567**	5,887,067
EQUITY			
Equity attributable to owners of the parent			
Share capital		**12,498**	12,498
Reserves		**6,029,860**	5,843,263
		6,042,358	5,855,761
Non-controlling interests		**30,209**	31,306
Total equity		**6,072,567**	5,887,067

Notes to the Interim Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

China Harmony New Energy Auto Holding Limited (formerly known as "China Harmony Auto Holding Limited") was incorporated on 24 September 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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 June 2013.

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

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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The 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 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated. These interim condensed consolidated financial statements were approved for issue on 31 August 2016. These interim condensed consolidated financial statements have not been audited.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the new and revised standards and interpretation as of 1 January 2016, noted below:

The following new standard and amendment to standards are mandatory for the first time for the financial year beginning 1 January 2016:

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

The adoption of these revised HKFRSs 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 were 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 period, no major customer 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.

	For the six months ended 30 June 2016 Unaudited ***RMB'000***	For the six months ended 30 June 2015 Unaudited *RMB'000*
Revenue from the sale of motor vehicles	**4,011,387**	4,216,343
Others	**916,774**	791,758
	4,928,161	5,008,101

(b) Other income and gains, net

	For the six months ended 30 June 2016 Unaudited ***RMB'000***	For the six months ended 30 June 2015 Unaudited *RMB'000*
Commission income	**133,394**	131,353
Advertisement support received from motor vehicle manufacturers	**6,968**	6,836
Bank interest income	**33,427**	41,461
Interest income from loans to third parties	**75,720**	38,119
Others	**18,228**	30,880
Total	**267,737**	248,649

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June 2016 Unaudited ***RMB'000***	For the six months ended 30 June 2015 Unaudited *RMB'000*
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**134,486**	112,413
Equity-settled share award expense	**2,611**	7,390
Equity-settled share option expense	**8,456**	530
Other welfare	**23,556**	19,068
	169,109	139,401
(b) Cost of sales and services		
Cost of sales of motor vehicles	**3,828,915**	4,034,055
Others	**488,156**	426,309
	4,317,071	4,460,364
(c) Other items		
Depreciation of items of property, plant and equipment	**81,157**	61,604
Amortisation of land use rights	**200**	200
Amortisation of intangible assets	**805**	714
Net loss/(gain) on disposal of items of property, plant and equipment	**5,222**	(6,634)
Advertisement and business promotion expenses	**28,562**	29,751
Bank charges	**4,340**	5,852
Lease expenses	**51,787**	39,957
Logistics and petroleum expenses	**10,222**	12,062
Office expenses	**6,728**	4,502
Foreign exchange differences, net	**(475)**	(130)

6. FINANCE COSTS

	For the six months ended 30 June 2016 Unaudited *RMB'000*	For the six months ended 30 June 2015 Unaudited *RMB'000*
Interest expense on bank borrowings wholly repayable within five years	**57,605**	82,932
Interest expense on other borrowings	**6,746**	13,729
Less: Interest capitalised	**(13,508)**	(11,999)
	50,843	84,662

7. INCOME TAX

	For the six months ended 30 June 2016 Unaudited *RMB'000*	For the six months ended 30 June 2015 Unaudited *RMB'000*
Current Mainland China corporate income tax	**123,449**	107,186
Deferred tax	**(11,581)**	(8,297)
	111,868	98,889

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% on the estimated assessable profits arising in Hong Kong 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 "**CIT Law**"), the income tax rate for Mainland China subsidiaries is 25%.

8. DIVIDENDS

	For the six months ended 30 June 2016 Unaudited *RMB'000*	For the six months ended 30 June 2015 Unaudited *RMB'000*
Dividends on ordinary shares declared during the period		
Final dividends for 2015: HK12 cents (2014: HK10 cents)	**158,074**	102,405

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

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 period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period. The number of shares for the period 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 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 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 and the share option scheme.

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

	For the six months ended 30 June 2016 Unaudited *RMB'000*	For the six months ended 30 June 2015 Unaudited *RMB'000*
Earnings		
Profit for the period attributable to ordinary equity holders of parent	**306,134**	279,330

	Number of shares	
	For the six months ended 30 June 2016 Unaudited	For the six months ended 30 June 2015 Unaudited
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,565,775,025**	1,290,931,463
Effect of dilution-weighted average number of ordinary shares:		
– Restricted shares	**4,311,026**	14,769,744
– Share options	**–**	–
	1,570,086,051	1,305,701,207

10. PREPAYMENTS

	30 June 2016 Unaudited *RMB'000*	31 December 2015 Audited *RMB'000*
Prepayments for purchase of items of property, plant and equipment	**447,445**	167,377
Prepaid lease for buildings and land use rights	**64,736**	37,988
	512,181	205,365

11. INVENTORIES

	30 June 2016 Unaudited *RMB'000*	31 December 2015 Audited *RMB'000*
Motor vehicles	**1,173,684**	1,134,079
Spare parts and accessories	**149,232**	139,418
	1,322,916	1,273,497

At 30 June 2016, certain of the Group's inventories with an aggregate carrying amount of approximately RMB532,014,000 (31 December 2015: RMB367,279,000) were pledged as security for the Group's bank loans and other borrowings.

At 30 June 2016, certain of the Group's inventories with an aggregate carrying amount of approximately RMB204,048,000 (31 December 2015: RMB293,646,000) were pledged as security for the Group's bills payable.

12. TRADE RECEIVABLES

	30 June 2016 Unaudited ***RMB'000***	31 December 2015 Audited *RMB'000*
Trade receivables	**95,663**	86,369

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:

	30 June 2016 Unaudited ***RMB'000***	31 December 2015 Audited *RMB'000*
Within 3 months	**83,934**	78,673
More than 3 months but less than 1 year	**11,729**	7,696
	95,663	86,369

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

	30 June 2016 Unaudited ***RMB'000***	31 December 2015 Audited *RMB'000*
Neither past due nor impaired	**95,663**	86,369

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.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 Unaudited *RMB'000*	31 December 2015 Audited *RMB'000*
Prepayments to suppliers	**437,780**	405,350
Rebate receivables	**378,835**	430,880
Loans to third parties *(i)*	**1,025,000**	845,000
VAT recoverable *(ii)*	**129,358**	133,650
Interest receivables	**9,139**	12,115
Staff advances	**8,728**	5,013
Insurance commission receivable	**50,445**	54,010
Others	**157,565**	65,708
	2,196,850	1,951,726

Notes:

(i) The loans granted to the third party with an amount of RMB145,000,000 as of 30 June 2016 (31 December 2015: RMB145,000,000) are guaranteed by the controlling shareholder of the Company (the "**Controlling Shareholder**") and 河南和諧實業集團有限公司 (Henan Hexie Industrial Group Co., Ltd.*), which is controlled by the Controlling Shareholder. These loans granted to the third party earn interest at fixed interest rates of 16% (31 December 2015: 18% per annum) with a maturity period of one year.

During the period, the Group granted entrusted loans to third parties with amounts of RMB880,000,000 (31 December 2015: RMB700,000,000), which bear interest at the rate of 17% per annum (31 December 2015: from 17% to 20% per annum) with a maturity period of one year.

(ii) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("**VAT**"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is deductible input VAT, which has not been claimed from the tax bureau. The applicable tax rate for domestic sales of the Group is 17%.

None of the above assets is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

14. BANK LOANS AND OTHER BORROWINGS

	30 June 2016 Unaudited		31 December 2015 Audited	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	(%)	***RMB'000***	*(%)*	*RMB'000*
Current				
Bank loans	**4.4 – 7.5**	**1,750,755**	4.6 – 8.7	1,798,504
Other borrowings	**7.5 – 8.7**	**638,071**	7.5 – 8.7	596,588
		2,388,826		2,395,092
Non-current				
Bank loans	**8.7**	**11,120**	8.7	21,360
		2,399,946		2,416,452

	30 June 2016 Unaudited	31 December 2015 Audited
	RMB'000	*RMB'000*
Bank loans and other borrowings representing:		
– secured	**270,299**	326,945
– guaranteed	**896,580**	736,720
– secured and guaranteed	**1,100,947**	898,723
– unsecured	**132,120**	454,064
	2,399,946	2,416,452
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**1,750,755**	1,798,504
In the second year	**11,120**	15,360
In the third to fifth years, inclusive	**–**	6,000
	1,761,875	1,819,864
Other borrowings repayable:		
Within one year or on demand	**638,071**	596,588
	2,399,946	2,416,452

15. TRADE AND BILLS PAYABLES

	30 June 2016 Unaudited *RMB'000*	31 December 2015 Audited *RMB'000*
Trade payables	**211,763**	157,531
Bills payable	**381,407**	706,563
Trade and bills payables	**593,170**	864,094

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

	30 June 2016 Unaudited *RMB'000*	31 December 2015 Audited *RMB'000*
Within 3 months	**566,012**	769,762
3 to 6 months	**21,961**	91,549
6 to 12 months	**3,149**	789
Over 12 months	**2,048**	1,994
Total	**593,170**	864,094

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In the first half of 2016, China's automobile industry saw a stable growth in sales and the increase was significantly higher than that in the same period last year. According to China Association of Automobile Manufacturers, sales volume of passenger vehicles reached 11.04 million in China in the first half of 2016, representing an increase of 9.2% as compared with the same period of last year, of which, new energy vehicle sales maintained rapid growth. Statistics of China Association of Automobile Manufacturers showed that sales of new energy vehicles in China reached 170,000 units in the first half of 2016, increasing by 126.9% as compared with the corresponding period of last year. Among which, sales volume of pure electric vehicles reached 126,000 units, increasing by 161.6% over the same period of last year. It is expected that the proportion of new energy vehicles sales in total vehicle sales in China will continue to grow, bringing great opportunities for development of new energy vehicles.

With the sustained release of potential of the automobile market in China, vehicle ownership maintained a rapidly growing trend. According to the Traffic Management Bureau of the Ministry of Public Security, as at the end of June 2016, vehicle ownership totalled 184 million units and the number of motorists was 296 million individuals in China. In the first half of 2016, a net growth of 11.35 million units in vehicle ownership was recorded and the number of newly-registered vehicles reached 13.28 million units, which was 1.99 million units higher than that in the same period of last year, representing an increase of 17.62% year-on-year. The Group believes that the rapid growth in vehicle ownership will further boost the development of the automobile after-sale services market.

Business Overview

In the first half of 2016, the Group continued to actively implement the strategy for transformation, vigorously developing after-sales services and new energy vehicles while constantly improving the margin of new vehicles sales, and achieved fruitful results.

Proactive Transformation of Network Layout

Strong Market Position of Dealership Outlets

As of the date of this announcement, the Group owned a total of 48 dealership outlets, covering 21 cities across China, and distributed 11 luxury and ultra-luxury brands, of which, 7 were luxury brands such as BMW, MINI, Lexus, Jaguar, Land Rover, Volvo and Zinoro; and 4 were ultra-luxury brands such as Rolls-Royce, Aston Martin, Ferrari and Maserati. The Group solidified and continued to strengthen its regional dominance in the regions of Central China, particularly Henan Province, and vigorously enhanced the operational efficiency of dealership outlets in developed coastal regions such as Beijing, Shanghai, Xiamen, Guangzhou, Suzhou, Changzhou, Wuxi and so on.

Accelerated Growth of Comprehensive After-sales Services Outlets

As of the date of this announcement, the Group operated a total of 181 independent comprehensive after-sales services outlets, of which 45 were centre outlets and 136 were community stores, covering 49 cities across China. Operating under the brand "Harmony Auto Maintenance (和諧汽修)", the Group's comprehensive after-sales services outlets offer after-sales services for mainstream luxury and ultra-luxury automobile models, which are not only limited to those 11 brands under the Group's dealership. The Group's strategy on the layout of comprehensive after-sales services outlets is to develop community stores covering the neighbourhood of each centre outlet, acting as the core in order to achieve full coverage of business categories and target markets as well as to penetrate the distribution channel and attract more customer flow to the centre outlets through community stores. In addition, the Group is one of the major after-sales services cooperative partners of Tesla in China.

Continued Stability of New Vehicles Sales

For the six months ended 30 June 2016, the Group recorded new vehicle sales volume of 10,710 units, increased by 0.3% as compared with 10,679 units in the first half of 2015. As the Group's newly opened dealership outlets under brands such as BMW and Lexus, etc. will become more mature; Lexus resumes normalized new car supply to its dealers and new models are being launched by brands distributed by the Group, the Group believes that these factors will support future growth of our new car sales volume.

Continued Rapid Growth of After-sales Services

The Group offers after-sales services to customers through dealership outlets and comprehensive after-sales services outlets. Comprehensive after-sales service is one of the Group's strategic focuses for transformation. As at the date of this announcement, the number of comprehensive after-sales services outlets operated by the Group reached 181. Comprehensive after-sales services outlets serve as high-end maintenance workshops specializing in after-sales services, premium accessories installation and car insurance agency for luxury and ultra-luxury vehicles. The rapid entry of the Group's comprehensive after-sales services outlets into the enormous luxury and ultra-luxury vehicle markets has generated significant growth in revenue.

In the first half of 2016, the Group continued to expand the network of comprehensive after-sales services outlets and successively opened centre outlets and community stores in cities including Changsha, Nanchang, Kunming, Hefei and Weifang. As a result, the coverage of comprehensive after-sales services outlets reached 49 cities. At the same time, the Group enhanced the operational efficiency and profitability of comprehensive after-sales services business through the following measures:

1. *Expanding strategic cooperation with large insurance companies*. The Group has signed strategic cooperation agreements with national insurance companies, such as Ping An Insurance, China Pacific Insurance, People's Insurance Company of China (PICC) and Bank of China Group Insurance, and insurance companies have become an important channel to attract customers to after-sales services outlets.

2. *Broadening value-added services of community stores*. Aside from the basic services including car washing, car beauty, maintenance and sending customers to centre outlets, the Group has added membership system, prepayment, insurance agency and other value-added services at community stores. As at the date of this announcement, the Group's comprehensive after-sales services outlets, including centre and community stores, attracted approximately 10,000 prepaid card members.

3. *Rapidly promoting O2O (online-to-offline) after-sales services business*. In November 2015, the Group entered into a strategic cooperation agreement with Alibaba Automobile (as defined below) with O2O after-sales services being one of the priorities for cooperation and significant results were achieved to date. In the first half of 2016, the Group's flagship stores at Tmall and JD.com attracted a traffic of 264,000 individuals to after-sales services, most of which are from mobile devices. In addition, there was a steady rise in the number of visitors and transaction volume of the Group on both platforms. O2O stores in cooperation with other automobile e-commerce platforms will be available soon.

Rapid Progress of New Energy Vehicles Projects

In March 2015, the Company entered into a strategic cooperation framework agreement in respect of "internet + intelligent electric vehicle" with Foxconn Technology Group and Shenzhen Tencent Industrial Investment Fund Limited to actively explore innovative cooperation in the area of internet and intelligent electric car. So far, the above strategic cooperation progressed well.

Establishment of Aiche Company

In December 2015, the Group entered into an agreement with 河南和諧富騰互聯網加智能電動汽車新能源合夥企業（有限合夥）(Henan Harmony Futeng Internet and Intelligent Electric Vehicle New Energy Partnership (Limited Partnership)*) ("**Harmony Futeng**") in respect of making joint capital contributions to establish 浙江愛車互聯網智能電動車有限公司(Zhejiang Aiche Internet and Intelligent Electric Vehicle Company Limited*) ("**Aiche Company**") with a registered capital of RMB550 million, which will be owned as to 28% by the Group and 55% by Harmony Futeng, and as to 17% by other investors to be introduced in the future. The Aiche Company acquired 87.57% equity interests in 浙江綠野汽車有限公司 (Green Field Motor Co., Ltd.*) ("**Green Field Motor**") to become its direct controlling shareholder.

As at the date of this announcement, the equity reorganization of Aiche Company and Green Field Motor as referred to above was in progress.

In the first half of 2016, the management and research and development teams of Aiche Company were further enhanced. They have completed the design of brand new economical electric vehicles and will launch the first model to the market as soon as possible.

Establishment of Future Mobility Corporation

The Group intends to develop high-end "internet + intelligent electric vehicle" projects with its strategic partners through Future Mobility Corporation Limited ("**FMC**") in a bid to enter into this fast-growing and highly promising market.

In the first half of 2016, FMC steadily put in place its management and research and development teams. Core founding team members mainly came from BMW, Benz, Tesla, Google and other world-class automobile and technology companies in the areas of research and development, design, powertrain engineering, autonomous driving, engineering, marketing, etc.. Full-runner show car are scheduled to be launched for pre-sale in the second half of 2017 and for delivery to customers in 2019. The Group believes that the strong team of founding partners has laid a solid foundation for the success of the high-end "internet + intelligent electric vehicle" projects.

Progress of Comprehensive Strategic Cooperation with Alibaba Automobile

On 2 November 2015, the Group entered into a strategic cooperation framework agreement with the Alibaba Automobile business unit ("**Alibaba Automobile**") of 浙江天貓技術有限公司 (Zhejiang Tmall.com Technology Co., Ltd.*), an affiliate of Alibaba Group Holding Ltd., to carry out comprehensive strategic cooperation in respect of "Internet + Automobile Sales and Services".

In the first half of 2016, the Group and Alibaba Automobile successfully pushed ahead with the above strategic cooperation: most of the Group's independent after-sales services outlets being included in the car port network of Alibaba Automobile; the Harmony Auto flagship store and direct-sale store set up by the Group at the Tmall platform attracting a large number of visits which led to a continuous increase in transactions in terms of volume and amount. The strategic cooperation between the Group and Alibaba Automobile in respect of automobile finance was also under way.

Future Outlook and Development Strategies

In the opinion of the Group, the penetration rate of automobiles in China is still lagging behind that of developed countries and car ownership is far from saturation, hence extensive room still exists for new automobile sales. With the increase of household income growth and upgraded consumer spending, the luxury and ultra-luxury automobile markets are set to resume normal growth.

As at 30 June 2016, vehicle ownership in China reached 184 million. According to estimates made by research institutions in the industry, automobiles aged three years and above, and six years and above currently account for over 60% and 40% of total number of automobiles in China, respectively. The increase in car ownership and the growth in average automobile age would further foster the booming growth of after-market services for automobiles, and its market scale is likely to reach RMB1 trillion in the next few years. As compared with developed countries, the automobile after-market in China is extensively fragmented at present. Along with the increasing demand for quality services and safety among consumers, the market would become more concentrated and industry leaders would be highly benefited.

As the world's largest automobile market in scale, China still has a low new energy vehicles penetration level. With encouragement and support from governmental policies, the increase in awareness on environmental protection among consumers as well as industry development maturing over time, it is anticipated that new energy vehicles industry will continue with its rapid development.

The Company will continue to execute the following development strategies with an aim to further boost its profitability and create greater value for its shareholders:

- steadily developing 4S outlets business with focus on enhancing its new car sales gross margin and after-sales service revenue;

- rapidly developing comprehensive after-sales services businesses, vigorously expanding community stores network on top of centre outlets to form a nationwide network and further enhancing its leading position in the country;

- proactively developing new energy automobile business while accelerating talent recruitment, research and development and product launch;

- fully utilizing internet platform, facilitating after-sales services and businesses of pre-owned automobiles and parallel imports of automobiles, realizing online and offline interaction and complementary functions; and

- proactively enhancing the penetration of automobile finance, increasing commission income and expanding financial leasing business.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB4,928.2 million for the first half of 2016, representing a decrease of 1.6% over the first half of 2015.

Revenue from sales of new passenger vehicles decreased by 4.9% from RMB4,216.3 million in the first half of 2015 to RMB4,011.4 million in the first half of 2016, accounting for 81.4% of the revenue (84.2% in the same period of 2015). The drop in sales revenue of new passenger vehicles was mainly due to discounts in the average selling price.

Revenue from after-sales services increased by 15.8% to RMB916.8 million in the first half of 2016 from RMB791.8 million in the first half of 2015, accounting for 18.6% of the total revenue in the first half of 2016 as compared with 15.8% in the first half of 2015. Among which, after-sales services revenue derived from our dealership outlets increased to RMB628.4 million in the first half of 2016, representing an increase of 11.1% as compared with RMB565.6 million in the first half of 2015. A steadily growing trend was maintained. Our comprehensive after-sales services outlets contributed revenue of RMB288.4 million in the first half of 2016, an increase of 27.5% from RMB226.2 million in the first half of 2015. The proportion of after-sales services revenue attributable to comprehensive after-sales services outlets also increased to 31.5% in 2016 from 28.6% in the first half of 2015. Looking into the future, our fast-growing comprehensive after-sales services outlets, which are in operation or will be in operation, will make greater contribution to the growth of the Group's after-sales services and become an important profit growth driver of the Group.

Cost of sales and services provided

Our cost of sales and services decreased by 3.2% from RMB4,460.4 million in the first half of 2015 to RMB4,317.1 million in the first half of 2016. Cost of sales attributable to sales of new passenger vehicles decreased by 5.1% from RMB4,034.1 million in the first half of 2015 to RMB3,828.9 million in the first half of 2016. Cost of sales attributable to after-sales services increased by 14.5% from RMB426.3 million in the first half of 2015 to RMB488.2 million in the first half of 2016.

Gross profit and gross profit margin

Our gross profit amounted to RMB611.1 million in the first half of 2016, representing a growth of 11.6% as compared to RMB547.7 million in the first half of 2015. Our gross profit margin was 12.4% in the first half of 2016, increasing by 1.5 percentage points from 10.9% in the first half of 2015 and increasing by 2.2 percentage points from 10.2% in the second half of 2015.

Gross profit from sales of new passenger vehicles remained stable at RMB182.5 million in the first half of 2016 as compared to RMB182.3 million in the first half of 2015. In the first half of 2016, sales of new vehicles reported gross profit margin of 4.5%, representing increases of 0.2 percentage point and 0.7 percentage point as compared against that for the first half and the second half of 2015, respectively. The rise in gross profit margin was mainly due to the increase in rebate support to dealership among automobile manufacturers in general during the first half of 2016 and the installation rate of the Group's clients Collectibles was rising.

Gross profit from our after-sales services increased by 17.3% from RMB365.5 million in the first half of 2015 to RMB428.6 million in the first half of 2016, which accounted for 70.1% of the total gross profit in the first half of 2016 as compared to 66.7% in the first half of 2015. Among which:

- gross profit derived from after-sales services provided by our dealership outlets increased by 15.6% from RMB265.3 million to RMB306.8 million.

- our comprehensive after-sales services outlets reported an increase of 21.6% in gross profit from after-sales services to RMB121.8 million from RMB100.2 million.

In the first half of 2016, gross profit margin of our after-sales service was 46.8%, representing an increase of 0.6 percentage point comparing with 46.2% of gross profit margin from our after-sales services in the first half of 2015 and an increase of 2.7 percentage points as compared to 44.1% of gross profit margin from our after-sales services in the second half of 2015.

Selling expenses

In the first half of 2016, selling expenses amounted to RMB319.6 million, increasing by 13.6% from RMB281.4 million in the first half of 2015. It was mainly attributed to the increase of selling expenses of newly-built comprehensive after-sales services outlets.

Administrative expenses

As compared to RMB49.4 million in the first half of 2015, administrative expenses increased by 52.0% to RMB75.1 million in the first half of 2016. It was mainly attributed to the increase of number of employees as a result of development of new businesses as well as the increased expenses for the employee share incentive plan (total expenses of restricted share unit scheme and share option scheme amounted to RMB11.1 million in the first half of 2016, which was higher than RMB7.9 million for the same period of 2015).

Other income and gains, net

Other income and gains, net increased by 7.7% from RMB248.6 million in the first half of 2015 to RMB267.7 million in the first half of 2016, and the increase was primarily due to:

- the commission income (mainly from insurance agency, vehicle financing agency and pre-owned cars agency services) for the first half of 2016 was RMB133.4 million, representing an increase of 1.6% from RMB131.4 million in the first half of 2015; a slow growth in the commission income is primarily attributable to a decline in the insurance agency commission income arising from car insurance policy reforms;

- a 19.4% decrease in bank interest income from RMB41.5 million in the first half of 2015 to RMB33.4 million in the first half of 2016, mainly due to the decrease in the deposit balance, the decrease in our structural deposits, and the decline in the RMB deposit rate;

- a 98.6% growth in interest income of entrusted loans and other loans to third parties from RMB38.1 million in the first half of 2015 to RMB75.7 million in the first half of 2016, primarily due to the utilization of the advantages of sufficient cash, thus making it possible for us to generate interest income higher than bank deposits with sound risk management.

Finance costs

The Group's finance costs for the first half of 2016 was RMB50.8 million, representing a decrease of 39.9% as compared to RMB84.7 million in the first half of 2015, primarily due to the decrease of the benchmark rate set by the People's Bank of China (the "**PBOC**") in the second half of 2015, and the average bank and other borrowings of the Group in the first half of 2016 was lower than the first half of 2015.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Group's EBITDA for the first half of 2016 was RMB553.9 million, representing a growth of 4.8% as compared to RMB528.5 million in the first half of 2015.

Profit from operations

Based on the reasons discussed above, the Group's profit from operations for the first half of 2016 was RMB484.1 million, representing an increase of 4.0% as compared to RMB465.6 million for the first half of 2015.

Profit for the period

The Group's profit attributable to owners of the parent for the first six months of 2016 was RMB306.1 million, representing an increase of 9.6% as compared against RMB279.3 million for the first six months of 2015.

Adjusted profit for the period

Excluding the expenses of restricted share unit scheme and share option scheme, the Group's profit attributable to owners of the parent for the first half of 2016 was RMB317.2 million, representing an increase of 10.4% from RMB287.3 million in the first half of 2015.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group's primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and after-sales services outlets and to fund its working capital and operating expenses. The Group's liquidity needs were financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at 30 June 2016, cash and deposits of the Group totalled RMB3,474.4 million, of which, HK$1,493.1 million (equivalent to RMB1,281.3 million) was deposited in Hong Kong dollars ("**HKD**"). The Group's HKD deposit's appreciation compared with RMB was equivalent to approximately RMB25.9 million for the first half of 2016, and RMB78.3 million for the second half of 2015. These appreciation changes had not been included in the Group's operating profit and profit for the respective period attributable to the owner of the Company.

For the first half of 2016 and the first half of 2015, our net cash from operating activities was RMB187.8 million and RMB717.2 million, respectively. The year-on-year decrease in our net cash from operating activities in the first half of 2016 was mainly due to changes in working capital, of which: (1) prepayments, deposits and other receivables increased by RMB93.1 million; (2) level of inventory increased by RMB44.3 million; and (3) bills payable decreased by RMB325.2 million.

Prior to the changes in working capital and the payment of taxes, our net cash from operating profit was RMB599.0 million in the first half of 2016.

For the first half of 2016 and the first half of 2015, net cash used in investing activities was RMB1,114.7 million and RMB608.5 million, respectively. The year-on-year increase in net cash from investing activities in the first half of 2016 was mainly attributed to an increase of RMB833.8 million in the Group's fixed deposits for increasing return from our cash balance.

Net cash generated from financing activities for the first half of 2016 and the first half of 2015 was RMB241.3 million and RMB1,921.3 million, respectively, primarily due to the fact that the Company raised proceeds of RMB2,651.0 million from issuing new shares in the first half of 2015 while no equity financing activities took place in the first half of 2016.

Taking into account the Group's existing cash and cash equivalents, anticipated cash flow from the operating activities, available bank facilities and other borrowings, the Board believes that the Group's liquidity needs can be satisfied.

Net current assets

As at 30 June 2016, the Group had net current assets of RMB2,103.8 million.

Capital expenditure

In the first half of 2016, the Group's capital expenditure (primarily used for the purchase of property, plant and equipment in connection with the establishment of new outlets and prepayments), was RMB402.9 million (the first half of 2015: RMB254.0 million).

Inventory

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Each of the Group's outlets individually manages its orders for new passenger vehicles and after-sales services products, but its headquarters implements active warning, supervision and management on inventories of all stores to ensure a reasonable inventory balance.

The Group's inventories slightly increased by 3.9% from RMB1,273.5 million as of 31 December 2015 to RMB1,322.9 million as of 30 June 2016, primarily due to an increase in the Group's inventory of new passenger vehicles by 3.5% from RMB1,134.1 million as of 31 December 2015 to RMB1,173.7 million as at 30 June 2016. As the management of the Company always pays attention to the turnover of inventory, the Group established an inventory warning management system, and introduced promotion, marketing plans and corresponding measures in accordance with market trend which benefit customers. The Group also established a unified dynamic inventory management system to consolidate the inventory resources and reduce part of the inventory.

The Group's average inventory turnover days for the first half of 2016 were 54 days, being a decrease of 6 days as compared to the first half of 2015. Among which, average inventory turnover days for luxury vehicles were 49 days, and the Group maintained relatively rapid turnover of inventory.

Bank loans and other borrowings

As at 30 June 2016, the Group had bank loans and other borrowings in the aggregate amount of RMB2,399.9 million, representing a year-on-year decrease of 0.7% as compared to RMB2,416.5 million as at 31 December 2015. The table below sets forth breakdowns of our bank loans and other borrowings as of the indicated dates:

	30 June 2016	31 December 2015
	RMB' 000	*RMB' 000*
Bank loans repayable:		
Within one year or on demand	**1,750,755**	1,798,504
In the second year	**11,120**	15,360
In the third to fifth years	**–**	6,000
	1,761,875	1,819,864
Other borrowings repayable:		
Within one year or on demand	**638,071**	596,588
Total	**2,399,946**	2,416,452

As at 30 June 2016, the Group's net cash ratio, which is calculated by net cash (cash and deposits minus interest bearing liability) divided by the total equity attributable to owners of the parent was 17.8%.

As at 30 June 2016, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over its assets. The Group's assets, subject to these mortgages or pledges as at 30 June 2016, consisted of (i) inventories in the amount of RMB532.0 million; (ii) property, plant and equipment in the amount of RMB30.0 million; and (iii) land use rights in the amount of RMB12.1 million. In addition, certain of the Group's bank loans and other borrowings were guaranteed by the Controlling Shareholder or affiliates of the Controlling Shareholder. As at 30 June 2016, the Group did not have bank borrowings, loans or bonds payable denominated in foreign currency.

Contingent liabilities

As at 30 June 2016, the Company did not have any material contingent liabilities or guarantees.

Interest rate risk and foreign exchange risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rate on our debt. Certain of its 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 the Group's cost of borrowing. If this occurs, it could adversely affect the Group's finance costs, profit and the Group's financial condition. The interest rates on bank loans and overdrafts in China depend on the benchmark lending rates published by the PBOC. The Group does not currently use any derivative instruments to manage its interest rate risk.

Substantially all of the Group's revenue, cost of revenue and expenses are denominated in Renminbi. The Group also uses Renminbi as its reporting currency. The Group does not believe its operations are currently subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge its exposure to such risk.

Employees and remuneration policies

As at 30 June 2016, the Group had a total of 5,171 employees (31 December 2015: 4,417 employees). Relevant staff cost for the first half of 2016 was approximately RMB169.1 million (including employee share incentive of RMB11.1 million), while the staff cost was approximately RMB139.4 million for the first half of 2015 (including employee share incentive of RMB7.9 million). According to the restricted share unit scheme (the "**RSU Scheme**") adopted by the Company in May 2013 (which was amended by the Board in August 2013 as agreed upon by all participants of the restricted share unit scheme), as at 30 June 2016, a total of 19,110,898 shares under the restricted share unit scheme had been issued and granted to a number of directors, senior management personnel and employees of the Group and two of them were current directors. For the six months ended 30 June 2016, 2,578,145 restricted shares unit were exercised and a total of 9,199,412 restricted shares unit were exercised as of 30 June 2016. As at the date of this announcement, the Group had 9,911,486 RSU awards outstanding under the RSU Scheme.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations. Eligible participants of the share option scheme include employees of the Company and its subsidiaries. The share option scheme became effective on 26 June 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. As at 30 June 2016, the Company had 40,500,000 share options outstanding under the Share Option Scheme, which represented approximately 2.6% of the Company's share in issue as at that date.

For further details of the restricted share unit scheme and the share option scheme, please refer to the Company's interim report for 2016 to be issued in due course. The Group regularly reviews its compensation policies and employee benefits with reference to market practices and individual performance.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries had 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 30 June 2016.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2016, 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 (the "**Listing Rules**") on the Stock Exchange, save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting and should also invite the chairman of the nomination, audit and remuneration committees to attend. Mr. Feng Changge, the chairman of the Board and the chairman of the nomination committee, Mr. Xiao Changnian, chairman of the audit committee and Mr. Xue Guoping, chairman of the remuneration committee were not able to attend the annual general meeting of the Company held on 18 May 2016 due to business commitments.

The Board will continue to review and monitor the corporate governance 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 for the six months ended 30 June 2016.

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 30 June 2016.

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 NEW ENERGY AUTO HOLDING LIMITED
Feng Changge
Chairman and Executive Director

Zhengzhou City, the People's Republic of China, 31 August 2016

* *For identification purposes only*

As of the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Liu Fenglei, Mr. Yang Lei, Mr. Qian Yewen and Ms. Ma Lintao, the non-executive director of the Company is Mr. Fan Qihui, and the independent non-executive directors of the Company are Mr. Xiao Changnian, Mr. Liu Zhangmin and Mr. Xue Guoping.