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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

ANNUAL RESULTS

The board of directors (the "**Board**") of China Harmony New Energy Auto Holding Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2016. The consolidated results have been reviewed by the audit committee of the Company.

Consolidated Statement of Profit or Loss

		Year ended December 31,	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
REVENUE	4(a)	**10,695,872**	10,620,244
Cost of sales and services	5(b)	**(9,925,790)**	(9,498,495)
GROSS PROFIT		**770,082**	1,121,749
Other income and gains, net	4(b)	**326,227**	524,781
Selling and distribution expenses		**(775,392)**	(592,221)
Administrative expenses		**(180,754)**	(134,719)
Other expenses		**(73,709)**	–
PROFIT FROM OPERATIONS		**66,454**	919,590
Finance costs	6	**(95,040)**	(157,056)
Share of profits and losses of:			
Joint ventures		**(101,817)**	(587)
Associates		**(189,942)**	1,308
(LOSS)/PROFIT BEFORE TAX	5	**(320,345)**	763,255
Income tax expense	7	**(47,302)**	(194,566)
(LOSS)/PROFIT FOR THE YEAR		**(367,647)**	568,689
Attributable to:			
Owners of the parent		**(370,674)**	563,393
Non-controlling interests		**3,027**	5,296
		(367,647)	568,689
(Loss)/earnings per share attributable to ordinary equity holders of the parent	9		
Basic (RMB)		**(0.24)**	0.39
Diluted (RMB)		**(0.24)**	0.39

Consolidated Statement of Comprehensive Income

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE YEAR	**(367,647)**	568,689
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**87,681**	71,419
Other comprehensive income for the year, net of tax	**87,681**	71,419
Total comprehensive (loss)/income for the year, net of tax	**(279,966)**	640,108
Attributable to:		
Owners of the parent	**(282,993)**	634,812
Non-controlling interests	**3,027**	5,296
	(279,966)	640,108

Consolidated Statement of Financial Position

		As at December 31,	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,757,592**	2,842,151
Prepaid land lease payments		**11,897**	12,297
Intangible assets		**35,418**	5,923
Goodwill		**7,892**	–
Prepayments		**494,425**	205,365
Investments in joint ventures		**297,596**	399,413
Investments in associates		**228,506**	7,872
Deferred tax assets		**82,530**	52,030
Total non-current assets		**3,915,856**	3,525,051
CURRENT ASSETS			
Inventories	10	**885,136**	1,273,497
Trade receivables	11	**247,471**	86,369
Prepayments, deposits and other receivables		**1,383,688**	1,951,726
Structured deposits		**–**	305,000
Available-for-sale investments		**38,000**	–
Pledged and restricted bank deposits		**134,117**	384,298
Cash in transit		**26,323**	39,435
Cash and bank balances		**2,969,098**	3,489,888
Total current assets		**5,683,833**	7,530,213
CURRENT LIABILITIES			
Bank loans and other borrowings		**1,824,417**	2,395,092
Trade and bills payables	12	**289,388**	864,094
Other payables and accruals		**1,231,878**	1,183,211
Income tax payable		**712,926**	683,244
Total current liabilities		**4,058,609**	5,125,641

	As at December 31,	
	2016	2015
	RMB'000	*RMB'000*
NET CURRENT ASSETS	**1,625,224**	2,404,572
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,541,080**	5,929,623
NON-CURRENT LIABILITIES		
Bank loans and other borrowings	**38,942**	21,360
Deferred tax liabilities	**32,680**	21,196
Total non-current liabilities	**71,622**	42,556
NET ASSETS	**5,469,458**	5,887,067
EQUITY		
Equity attributable to owners of the parent		
Share capital	**12,498**	12,498
Reserves	**5,426,610**	5,843,263
	5,439,108	5,855,761
Non-controlling interests	**30,350**	31,306
Total equity	**5,469,458**	5,887,067

1. GENERAL AND GROUP INFORMATION

China Harmony New Energy Auto Holding Limited (the "**Company**") 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 the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 13, 2013 ("**Listing**").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the sale of automobiles and provision of after-sales services 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 ("**HKICPA**"), 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, except for available-for-sale investments which have been measured at fair value. 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.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
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 Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale of automobiles and provision of after-sales services. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of automobiles and the provision of after-sales 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 of automobiles and provision of after-sales services in Mainland China and over 90% of the Group's identifiable non-current assets and liabilities were located in Mainland China, no geographical segment information is presented.

Information about major customers

Since no sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

Revenue represents the net invoiced value of goods sold and the value of services rendered after allowances for returns, trade discounts, where applicable.

	2016 ***RMB'000***	2015 *RMB'000*
Revenue from the sale of automobiles	**9,308,962**	8,934,918
Provision of after-sales services	**1,247,381**	1,530,885
Others	**139,529**	154,441
	10,695,872	10,620,244

(b) Other income and gains, net:

	2016	2015
	RMB'000	*RMB'000*
Commission income	**180,196**	275,992
Advertisement support received from motor vehicle manufacturers	**25,169**	15,093
Bank interest income	**43,019**	65,284
Interest income from loans to third parties	**40,561**	102,741
Government grants*	**2,940**	1,043
Gain on disposal of a subsidiary	**–**	18,592
Others	**34,342**	46,036
Total	**326,227**	524,781

* Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies. There are no unfulfilled conditions or contingencies related to these grants.

5. (LOSS)/PROFIT BEFORE TAX

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

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

	2016	2015
	RMB'000	*RMB'000*
Wages and salaries	**324,370**	232,105
Equity-settled share award expense	**5,251**	4,150
Equity-settled share option expense	**17,580**	10,502
Other welfare	**51,572**	42,082
	398,773	288,839

(b) Cost of sales and services:

	2016	2015
	RMB'000	*RMB'000*
Cost of sales of automobiles*	**9,107,562**	8,572,903
Cost of after-sales services**	**746,491**	881,027
Others	**71,737**	44,565
	9,925,790	9,498,495

* As of December 31, 2016, the impairment provision of inventories amounted to RMB2,159,000 (2015: RMB11,119,000). The reversal of impairment of inventories of RMB8,960,000 was included in "Cost of sales of automobiles" in the consolidated statement of profit or loss during the year.

** There were employee benefit expenses of RMB81,335,000 (2015: RMB67,243,000) included in the cost of after-sales services.

(c) Other items:

	2016	2015
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**184,280**	147,172
Amortisation of prepaid land lease payments	**400**	400
Amortisation of intangible assets	**2,034**	1,529
Auditor's remuneration	**4,000**	4,000
Advertisement and business promotion expenses	**64,554**	65,501
Bank charges	**8,161**	11,977
Minimum lease payments under operating leases	**122,505**	83,397
Loss on disposal of items of property, plant and equipment, net	**26,829**	18,535
Impairment of property, plant and equipment*	**73,709**	–
Foreign exchange differences, net	**(1,973)**	(1,358)

* The impairment of property, plant and equipment is included in "Other expenses" in the consolidated statement of profit or loss.

6. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**100,069**	152,648
Interest expense on other borrowings	**13,197**	26,102
Less: Interest capitalised	**(18,226)**	(21,694)
	95,040	157,056

7. INCOME TAX

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

	2016	2015
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**74,201**	216,119
Deferred tax	**(26,899)**	(21,553)
	47,302	194,566

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% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. There are no assessable profits arising in Hong Kong during the year (2015: Nil).

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

	2016	2015
	RMB'000	*RMB'000*
Proposed final – Nil (2015: HK12 cents) per ordinary share	**–**	158,074

For the year ended December 31, 2016, the directors of the Company do not propose a final dividend.

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the 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 (loss)/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 and share option scheme.

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

Losses/earnings

	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit for the year attributable to ordinary equity holders of the parent used in the basic (loss)/earnings per share calculation	**(370,674)**	563,393

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,565,782,147**	1,426,739,395
Effect of dilution – weighted average number of ordinary shares:		
– Restricted shares	**4,078,799**	13,579,715
	1,569,860,946	1,440,319,110

Outstanding share options of the Company during the year ended December 31, 2016 and 2015 have not been included in the computation of diluted earnings per share as they did not have a dilutive effect on the Company's (loss)/earnings per share for the year ended December 31, 2016 and 2015.

10. INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Automobiles	**731,315**	1,134,079
Spare parts and accessories	**153,821**	139,418
	885,136	1,273,497

At December 31, 2016, certain of the Group's inventories with an aggregate carrying amount of approximately RMB382,823,000 (2015: RMB367,279,000) were pledged as security for the Group's bank loans and other borrowings .

At December 31, 2016, certain of the Group's inventories with an aggregate carrying amount of approximately RMB57,995,000 (2015: RMB293,646,000) were pledged as security for the Group's bills payable.

11. TRADE RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**247,471**	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:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**237,550**	78,673
More than 3 months but less than 1 year	**9,921**	7,696
	247,471	86,369

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**247,471**	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.

12. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**87,399**	157,531
Bills payable	**201,989**	706,563
Trade and bills payables	**289,388**	864,094

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**266,303**	769,762
3 to 6 months	**15,999**	91,549
6 to 12 months	**4,300**	789
Over 12 months	**2,786**	1,994
	289,388	864,094

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In 2016, the economy of China has remained stable, downward pressure was effectively mitigated. The automobile industry continued to achieve a steady yet rapid development. According to China Association of Automobile Manufacturers, sales volume of passenger vehicles reached 24.4 million units in China in 2016, representing a year-on-year growth of 14.9%.

The sector of new energy vehicles in China recorded explosive growth due to various positive factors, including favorable government policies, rising environmental awareness of consumers and further development of new energy vehicles. According to China Association of Automobile Manufacturers, sales of new energy vehicles in China reached 507,000 units in 2016, increasing by 53% year-on-year, among which, sales volume of pure electric vehicles reached 409,000 units, increasing by 65.1% year-on-year.

In addition, according to Traffic Management Bureau of the Ministry of Public Security, vehicle ownership for civilian use had reached 194 million units by the end of 2016. The enormous level of vehicle ownership laid the foundation for the rapid development of the trading market of pre-owned cars and after-sales services market.

BUSINESS OVERVIEW

Proactive Transformation of Network Layout

Strong Market Position of Dealership Outlets

As of the date of this announcement, the Group owned a total of 47 dealership outlets, covering 21 cities across the country, distributed 11 luxury and ultra-luxury brands, of which, 7 were luxury brands such as BMW, MINI, Lexus, Jaguar, Land Rover, Volvo and Zinoro; 4 were ultra-luxury brands such as Rolls-Royce, Aston Martin, Ferrari and Maserati.

Stable Development of Comprehensive After-sales Services Outlets

As of the date of this announcement, the Group operated a total of 152 comprehensive after-sales services outlets, of which, 48 were centre outlets and 104 were community stores, covering 42 cities across the country. Operating under the brands "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 outlets 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 chain and attract more customer flow to the centre stores capitalizing on community outlets.

Recovery of growth of new vehicles sales

For the year ended December 31, 2016, the Group recorded new vehicle sales volume of 24,620 units, increased by 1,437 units or 6.2% as compared with 23,183 units in 2015.

A breakdown of the new vehicle sales volume of the Group for the year ended December 31, 2016 is as follows:

- Sales volume of BMW brand reached 20,589 units (inclusive of MINI brand), exceeded 20,000 units for the first time, up 3.7% over 2015; sales volume of other brands were 4,031 units, representing a growth of 21.4% as compared to 2015. BMW is still the largest brand under the Group's dealership and its sales volume accounted for 83.6% of the total sale volume.

- Sales volume of luxury vehicles were 23,223 units, up 5.0% when comparing with 2015 while sales volume of ultra-luxury vehicles were 1,397 units, representing a growth of 32.3% over 2015.

Progress of New Energy Auto Projects

In December 2016, the first round of financing for one of the Company's investments, the high-end "internet + intelligent electric vehicles" project of Future Mobility Corporation Limited ("**FMC**"), was executed, introducing investment from FMC management team and various external strategic investors. As of the date of this announcement, the Group holds approximately 33% shareholding in FMC Cayman, the parent company of FMC. FMC has established global research and development centres in Munich and Silicon Valley, and entered into strategic cooperative framework agreement with Nanjing Economic and Technological Development Zone in January 2017 pursuant to which both parties agreed to construct FMC High-end Intelligent Electric Vehicles Manufacturing Base in Nanjing Economic and Technological Development Zone with the planned total annual production capacity of 300,000 vehicles. FMC proposed to introduce full-runner concept vehicles in the fourth quarter of 2017, and deliver the first series in 2019.

Green Field Motor Co., Ltd. ("**Green Field Motor**"), acquired by Zhejiang Aiche Internet Intelligent Electric Vehicle Company Limited ("**Aiche Company**"), commenced suspension of production in 2016 and carried out asset and debt restructuring. As of the date of this announcement, Aiche Company is negotiating with Green Field Motor and relevant parties regarding reorganization plans in order to revitalize the assets of Green Field Motor.

Future Outlook and Development Strategies

In the opinion of the Group, the penetration rate of automobiles in China is still lagging behind developed countries and car ownership is far from saturation, hence a large room still exists for new automobile sales. With household income growth and consumption upgrading, the luxury and ultra-luxury automobile markets are set to continuous growth.

As of December 31, 2016, vehicle ownership in China had reached 194 million units. According to the 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 trading market of pre-owned cars and 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 development of pre-owned vehicles business in China has been lagging behind, and the vehicles after-market is extensively fragmented at present, which showed huge potential for development.

Though ranking first in automobile market scale in the world, China still has a low new energy vehicles penetration level. Under encouragement and support from governmental policies, the increase in awareness on environmental protection among consumers as well as growth of maturity level of industry development, it is anticipated that new energy vehicles industry will continue its rapid development.

The Company will progressively execute the following development strategies with an aim to further boost up its scale of income and profitability to create greater value for its shareholders:

- rapidly developing 4S outlets business and proactively expanding dealership network to further enhance sales volume of new vehicles and revenue from after-sale services;

- steadily developing comprehensive after-sales service businesses, solidifying the leading position of centre stores, enhancing the operational efficiency of community stores and controlling costs on network expansion, as well as introducing external strategic investors for comprehensive after-sales business, making it become an entity with independent operation and financing;

- proactively supporting the new energy automobile business invested by the Group while accelerating talents recruitment, research and development and products launching;

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

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

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB10,695.9 million for 2016, representing an increase of 0.7% as compared with RMB10,620.2 million in 2015.

Revenue from sales of new passenger vehicles increased by 4.2% from RMB8,934.9 million in 2015 to RMB9,309.0 million in 2016, accounting for 87.0% of the revenue (84.1% in 2015). The increase in revenue from sales of new vehicles was mainly attributed to the growth in sales volume of new vehicles.

Revenue from after-sales services decreased 17.7% to RMB1,386.9 million in 2016 from RMB1,685.3 million in 2015, accounting for 13.0% of the total revenue in 2016 as compared with 15.9% in 2015.

Cost of sales and services provided

Our cost of sales and services increased by 4.5% from RMB9,498.5 million in 2015 to RMB9,925.8 million in 2016. Cost of sales attributable to sales of new passenger vehicles increased by 6.2% from RMB8,572.9 million in 2015 to RMB9,107.6 million in 2016. Cost of sales attributable to after-sales services decreased by 11.6% from RMB925.6 million in 2015 to RMB818.2 million in 2016.

Gross profit and gross profit margin

Our consolidated gross profit was RMB770.1 million in 2016, representing a decrease of 31.3% as compared to RMB1,121.7 million in 2015. Our consolidated gross profit margin was 7.2% in 2016, representing a decrease of 3.4 percentage points as compared to 10.6% in 2015.

Gross profit from sales of new passenger vehicles decreased by 44.4% to RMB201.4 million in 2016 from RMB362.0 million in 2015. In 2016, sales of new vehicles reported gross profit margin of 2.2%, representing a decrease of 1.9 percentage points as compared against that for 2015. The drop in gross profit margin was mainly due to the discounted sales of a batch of new vehicles with relatively long inventory days in order to speed up the inventory turnover and lower the capital pressure from the high level of inventory by the Group in the second half of 2016.

Gross profit from our after-sales services decreased by 25.1% from RMB759.7 million in 2015 to RMB568.7 million in 2016, which contributed to total gross profit by 73.8% in 2016 as compared with 67.7% in 2015. Gross profit margin from our after-sales services decreased by 4.1 percentage points from 45.1% in 2015 to 41.0% in 2016. The decreases in gross profit and gross profit margin were mainly due to: (1) the new opening of substantial number of centre outlets and community stores of independent after-sales services by the Group during 2015 to the first half of 2016, and greater efforts are normally made in promotion for newly opened outlets; (2) stricter requirements on environmental protection were imposed on the after-sales service centres in Henan Province in the second half of 2016 and a number of the services provided by our after-sales service outlets were significantly impacted, which resulted in the decrease in revenue and gross profit.

Selling expenses

In 2016, selling expenses amounted to RMB775.4 million, increasing by 30.9% from RMB592.2 million in 2015. It was mainly attributed to the increase of salaries of our dealership and after-sales services outlets, as well as the increase of selling expenses of newly-built comprehensive after-sales services outlets.

Administrative expenses

As compared to RMB134.7 million in 2015, administrative expenses increased by 34.2% to RMB180.8 million in 2016. It was mainly attributed to the increase of administrative personnels and relevant salaries, as well as the increase of administrative expenses of the newly opened comprehensive after-sales services outlets.

Other expenses

The Group's other expenses for 2016 was RMB73.7 million, due to impairment of property, plant and equipment resulted from closure of several stores.

Other income and gains, net

Other income and gains, net decreased by 37.8% from RMB524.8 million in 2015 to RMB326.2 million in 2016, due to revision and early termination of major loan contracts to third parties in order to enhance the Group's funds safety, and decline of both commission income and bank interest income.

Finance costs

The Group's finance costs for 2016 was RMB95.0 million, representing a decrease of RMB62.1 million or 39.5% as compared to RMB157.1 million in 2015, primarily due to the repayment of part of the bank loans by the Group in 2016.

Profit from operations

Based on the reasons discussed above, the Group's profit from operations for 2016 was RMB66.5 million.

Share of losses of joint ventures and associates

The Group recorded share losses of joint ventures and associates of RMB291.8 million for the year of 2016, due to research and development expenses, and operating expenses of new energy auto associates and joint ventures, as well as one-off impairment loss of investment recorded by the Group.

Loss for the year

The Group's net loss for 2016 was RMB367.6 million, and a net profit of RMB568.7 million was recorded for the same period of 2015. The main reasons for recording net loss by the Group for 2016 were due to: (i) the fact that the independent after-sales service business of the Group was under investment period with faster expansion of outlets, incurring more expenses in early stage; (ii) the impairment loss incurred in investment, merger and acquisition of the Group; and (iii) accelerated inventories clearance at above-average discounts for the period.

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 outlets and to fund our working capital and operating expenses. The Group's liquidity needs was financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at December 31, 2016, cash and deposits of the Group totaled RMB3,129.5 million, decreased by RMB1,089.1 million, representing a decrease of 25.8% as compared with last year, mainly attributable to the repayment of part of bank loans by the Group during the period. As at December 31, 2016, among the Group's cash and cash balance, HK$1,408.2 million (equivalent to RMB1,259.7 million) was deposited overseas and in Hong Kong dollars.

For 2016 and 2015, our net cash from operating activities was RMB86.7 million and RMB1,590.8 million, respectively. For 2016 and 2015, net cash used in investing activities was RMB324.5 million and RMB1,499.6 million, respectively. Net cash outflow from financing activities for 2016 was RMB929.9 million. Net cash generated from financing activities for 2015 was RMB1,673.2 million.

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 December 31, 2016, the Group had net current assets of RMB1,625.2 million.

Capital expenditure

In 2016, the Group's capital expenditure (primarily used for the expenditure and prepayment for purchase of items of property, plant and equipment in connection with the establishment of new outlets), was RMB481.6 million, representing a decrease of 23.1% comparing with 2015 (2015: RMB626.5 million).

Inventories

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 products, but the headquarters of the Group implements active warning, supervision and management on inventories of all stores to ensure a reasonable inventory balance.

The Group's inventories decreased by RMB388.4 million or 30.5% from RMB1,273.5 million as of December 31, 2015, to RMB885.1 million as of December 31, 2016, primarily due to a decrease in the Group's inventory of new passenger vehicles by 35.5% from RMB1,134.1 million as of December 31, 2015 to RMB731.3 million as at December 31, 2016. The Group sold aged inventory of new vehicles at discounted price in the second half of 2016. As the management of the Company always pays attention on the turnover of inventory, the Group established a warning management system for inventory 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 2016 were 40 days, a decrease of 12 days as compared to 2015. Among which, average inventory turnover days for luxury vehicles were 32 days. Under the slowdown of growth rate in the market and rise in inventory pressure faced by each distributor, the Group was still able to maintain relatively rapid turnover of inventory.

Bank loans and other borrowings

As at December 31, 2016, the Group had bank loans and other borrowings in the aggregate amount of RMB1,863.4 million, representing a year-on-year decrease of 22.9% as compared to RMB2,416.5 million as at December 31, 2015.

	December 31, 2016 *RMB'000*	December 31, 2015 *RMB'000*
Bank loans repayable:		
Within one year	**1,087,696**	1,798,504
In the second year	**21,332**	15,360
In the third to fifth years	**17,610**	6,000
	1,126,638	1,819,864
Other borrowings repayable:		
Within one year	**736,721**	596,588
Total	**1,863,359**	2,416,452

As at December 31, 2016, the Group's net cash ratio, which is calculated by net cash (cash and deposits minus interest-bearing liabilities) divided by the total equity attributable to owners of the parent, was 23.3%.

As at December 31, 2016, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Company's assets. The Company's assets, subject to these mortgages or pledges as at December 31, 2016, consisted of (i) inventories in the amount of RMB382.8 million; (ii) property, plant and equipment in the amount of RMB28.8 million and (iii) prepaid land lease payments in the amount of RMB11.9 million. In addition, certain of the Group's bank loans and other borrowings were guaranteed by the Chairman of the Company or affiliates of the Chairman of the Company. As at December 31, 2016, the Group did not have bank borrowings, loans or bonds payable denominated in foreign currency.

Contingent liabilities

As at December 31, 2016, we did not have any material contingent liabilities or guarantees.

Interest rate risk and foreign exchange risk

The Group are exposed to interest rate risk resulting from fluctuations in interest rate on our debt. 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 People's Bank of China. The Group do 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 use Renminbi as its reporting currency. The Group is of the view that its operations are currently not 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 December 31, 2016, the Group had a total of 5,363 employees (December 31, 2015: 4,417 employees). Relevant staff cost for 2016 was approximately RMB398.8 million (including employee share incentive of RMB22.8 million), while the staff cost was approximately RMB288.8 million for 2015 (including employee share incentive of RMB14.7 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 December 31, 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 year ended December 31, 2016, a total of 9,199,412 RSU awards were exercised. As at 31 December 2016, a total of 4,755,215 RSU awards were forfeited due to the resignation of certain RSU Participants. As at the date of this announcement, the Company had 5,156,271 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 June 26, 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. As of December 31, 2016, the Company had 39,900,000 share options outstanding under the share option scheme, which represented approximately 2.5% of the Company's share in issue as at that date.

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

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

For the year ended December 31, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities. On January 23, 2017, the Company has announced a Share Buy-back Program. For details of the program, please refer to our announcements on that day. As of February 27, 2017, the Company has repurchased 32,748,000 shares, which represented 2.0783% of the Company's share in issue at the date of the Annual General Meeting in 2016.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended December 31, 2016.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the reporting period, 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 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 confirmed that, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2016.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit of loss and other comprehensive income and the related notes thereto for the year ended December 31, 2016 as set out in this preliminary announcement have been agreed by the Company's auditors, Ernst &Young, certified public accountants, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

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, 2016.

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 New Energy Auto Holding Limited
Feng Changge
Chairman and Executive Director

Zhengzhou, the People's Republic of China, March 31, 2017

As at 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.