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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, 2017

RESULTS HIGHLIGHTS:

- Our revenue for the year ended December 31, 2017 amounted to RMB10,840.4 million, representing an increase of 1.4% from RMB10,695.9 million recorded in the corresponding period in 2016.

- Our gross profit for the year ended December 31, 2017 amounted to RMB1,017.8 million, representing an increase of 32.2% from RMB770.1 million recorded in the corresponding period in 2016.

- The Group achieved profit attributable to owners of the parent for the year ended December 31, 2017 of RMB1,009.4 million. Among which, profit contributed by 4S outlets business amounted to RMB551.8 million.

- Basic and diluted earnings per share for the year ended December 31, 2017 were RMB0.66 and RMB0.65, respectively.

- The Board proposed a final dividend of HK13 cents for each ordinary share for the year ended December 31, 2017.

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, 2017. The consolidated results have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended December 31,	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
REVENUE	4(a)	**10,840,411**	10,695,872
Cost of sales and services	5(b)	**(9,822,566)**	(9,925,790)
GROSS PROFIT		**1,017,845**	770,082
Other income and gains, net	4(b)	**1,321,199**	326,227
Selling and distribution expenses		**(787,488)**	(775,392)
Administrative expenses		**(147,013)**	(180,754)
Other expenses		**–**	(73,709)
PROFIT FROM OPERATIONS		**1,404,543**	66,454
Finance costs	6	**(63,437)**	(95,040)
Share of profits and losses of:			
Joint ventures		**(18,587)**	(101,817)
Associates		**(99,137)**	(189,942)
PROFIT/(LOSS) BEFORE TAX	5	**1,223,382**	(320,345)
Income tax expense	7	**(202,094)**	(47,302)
PROFIT/(LOSS) FOR THE YEAR		**1,021,288**	(367,647)
Attributable to:			
Owners of the parent		**1,009,356**	(370,674)
Non-controlling interests		**11,932**	3,027
		1,021,288	(367,647)
Earnings/(loss) per share attributable to ordinary equity holders of the parent	9		
Basic *(RMB)*		**0.66**	(0.24)
Diluted *(RMB)*		**0.65**	(0.24)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
PROFIT/(LOSS) FOR THE YEAR	**1,021,288**	(367,647)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(46,072)**	87,681
Other comprehensive (loss)/income for the year, net of tax	**(46,072)**	87,681
Total comprehensive income/(loss) for the year, net of tax	**975,216**	(279,966)
Attributable to:		
Owners of the parent	**963,284**	(282,993)
Non-controlling interests	**11,932**	3,027
	975,216	(279,966)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at December 31, 2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,976,165**	2,757,592
Prepaid land lease payments		**11,497**	11,897
Intangible assets		**108,379**	35,418
Goodwill		**57,911**	7,892
Prepayments		**420,183**	494,425
Finance lease receivables		**14,512**	–
Investments in joint ventures		**5,589**	297,596
Investments in associates		**789,041**	228,506
Available-for-sale investments		**887,023**	–
Deferred tax assets		**50,366**	82,530
Total non-current assets		**4,320,666**	3,915,856
CURRENT ASSETS			
Inventories	10	**1,271,376**	885,136
Trade receivables	11	**106,190**	247,471
Finance lease receivables		**6,724**	–
Prepayments, deposits and other receivables		**2,553,068**	1,383,688
Available-for-sale investments		**120,577**	38,000
Pledged and restricted bank deposits		**81,043**	134,117
Cash in transit		**37,085**	26,323
Cash and bank balances		**1,580,378**	2,969,098
Total current assets		**5,756,441**	5,683,833
CURRENT LIABILITIES			
Bank loans and other borrowings		**1,800,356**	1,824,417
Trade and bills payables	12	**206,207**	289,388
Other payables and accruals		**918,371**	1,231,878
Income tax payable		**755,221**	712,926
Total current liabilities		**3,680,155**	4,058,609

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
NET CURRENT ASSETS	**2,076,286**	1,625,224
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,396,952**	5,541,080
NON-CURRENT LIABILITIES		
Bank loans and other borrowings	**15,980**	38,942
Deferred tax liabilities	**50,507**	32,680
Total non-current liabilities	**66,487**	71,622
NET ASSETS	**6,330,465**	5,469,458
EQUITY		
Equity attributable to owners of the parent		
Share capital	**12,176**	12,498
Reserves	**6,275,144**	5,426,610
	6,287,320	5,439,108
Non-controlling interests	**43,145**	30,350
Total equity	**6,330,465**	5,469,458

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND GROUP INFORMATION

China Harmony New Energy Auto Holding Limited was incorporated on September 24, 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is 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 Group was 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. 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 HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The adoption of these revised HKFRSs 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 motor vehicles and the provision of related services.

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

Information about geographical area

Since all of the Group's revenue was generated from the sale 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.

	2017	2016
	RMB'000	*RMB'000*
Revenue from the sale of automobiles	**9,251,179**	9,308,962
Provision of after-sales services	**1,366,325**	1,247,381
Others	**222,907**	139,529
	10,840,411	10,695,872

(b) Other income and gains, net:

	2017	2016
	RMB'000	*RMB'000*
Commission income	**307,339**	180,196
Advertisement support received from motor vehicle manufacturers	**36,317**	25,169
Bank interest income	**22,438**	43,019
Interest income from loans to third parties	**8,821**	40,561
Government grants*	**729**	2,940
Gain on deemed disposal of subsidiaries	**27,935**	–
Gain on deemed partial disposal of an associate	**29,765**	–
Gain on disposal of shares in an associate	**29,304**	–
Gain on transferring the investment in an associate to available-for-sale investment	**815,700**	–
Others	**42,851**	34,342
Total	**1,321,199**	326,227

* 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. PROFIT/(LOSS) BEFORE TAX

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

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

	2017	2016
	RMB'000	*RMB'000*
Wages and salaries	**307,392**	324,370
Equity-settled share award expense	**–**	5,251
Equity-settled share option expense	**7,719**	17,580
Other welfare	**48,297**	51,572
	363,408	398,773

(b) Cost of sales and services:

	2017	2016
	RMB'000	*RMB'000*
Cost of sales of automobiles*	**8,908,856**	9,107,562
Cost of after-sales services**	**791,689**	746,491
Others	**122,021**	71,737
	9,822,566	9,925,790

* As of December 31, 2017, the impairment provision for inventories amounted to RMB388,000 (2016: RMB2,159,000). The reversal of impairment provision for inventories amounted to RMB1,771,000 (2016: 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 RMB84,474,000 (2016: RMB81,335,000) included in the cost of after-sales services.

(c) Other items:

	2017	2016
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**232,405**	184,280
Amortisation of prepaid land lease payments	**400**	400
Amortisation of intangible assets	**2,998**	2,034
Auditor's remuneration	**4,000**	4,000
Loss on disposal of a subsidiary	**1,727**	–
Advertisement and business promotion expenses	**48,036**	64,554
Bank charges	**8,069**	8,161
Minimum lease payments under operating leases	**123,674**	122,505
Loss on disposal of items of property, plant and equipment, net	**9,497**	26,829
Impairment of property, plant and equipment*	**–**	73,709
Foreign exchange differences, net	**5,854**	(1,973)

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

6. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans and other loans	**69,483**	113,226
Less: Interest capitalised	**(6,046)**	(18,226)
	63,437	95,040

7. INCOME TAX

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

	2017 *RMB'000*	2016 *RMB'000*
Current Mainland China corporate income tax	**203,271**	74,201
Deferred tax	**(1,177)**	(26,899)
	202,094	47,302

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% (2016: 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 (2016: 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

	2017 *RMB'000*	2016 *RMB'000*
Proposed final – HK13 cents (2016: Nil) per ordinary share	**160,973**	–

The proposed final dividend for the year is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The calculation of the proposed final dividend for the year ended December 31, 2017 is based on the proposed final dividend per ordinary share and the total number of ordinary shares as at this announcement date.

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

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) 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/(loss) per share amount is based on the profit/(loss) 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/(loss) 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/(loss) per share are based on:

Earnings/(loss)

	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) for the year attributable to ordinary equity holders of the parent used in the basic earnings/(loss) per share calculation	**1,009,356**	(370,674)

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,536,113,504**	1,565,782,147
Effect of dilution – weighted average number of ordinary shares:		
– Restricted shares	**2,465,112**	4,078,799
– Share options	**6,676,267**	–
	1,545,254,883	1,569,860,946*

* After taking restricted shares into account, the restricted shares had an anti-dilutive effect on the basic loss per share for the year and were not included in the calculation of diluted loss per share.

10. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Automobiles	**1,146,651**	731,315
Spare parts and accessories	**124,725**	153,821
	1,271,376	885,136

At December 31, 2017, certain of the Group's inventories with an aggregate carrying amount of approximately RMB718,430,000 (2016: RMB382,823,000) were pledged as security for the Group's bank loans and other borrowings.

At December 31, 2017, certain of the Group's inventories with an aggregate carrying amount of approximately RMB78,852,000 (2016: RMB57,995,000) were pledged as security for the Group's bills payable.

11. TRADE RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**106,190**	247,471

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**90,432**	237,550
More than 3 months but less than 1 year	**15,758**	9,921
	106,190	247,471

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**106,190**	247,471

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

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**82,750**	87,399
Bills payable	**123,457**	201,989
Trade and bills payables	**206,207**	289,388

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**200,275**	266,303
3 to 6 months	**2,248**	15,999
6 to 12 months	**1,057**	4,300
Over 12 months	**2,177**	2,786
	206,207	289,388

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2017, China's automobile industry showed a stable growth in sales. According to China Association of Automobile Manufacturers, sales volume of passenger vehicles reached 24.718 million units in China in 2017, representing an increase of 1.3% as compared to the same period of 2016. Of which, the growth in overall sales volume of luxury vehicles was significantly higher than the growth in overall sales volume of passenger vehicles. In 2017, 12 luxury and ultra-luxury vehicle brands in China reached a sales volume of 2.575 million units. Motivated by the upward trend of per capita disposable income, the upgrade of consumption and the rising consumption in Mainland China cities as well as the constant launch of new products from various manufacturers of luxury brands, the Group believes that the luxury vehicle market in 2018 will continue to maintain its momentum of rapid growth.

New energy vehicle sales in China continued to have rapid growth. Statistics of China Association of Automobile Manufacturers showed that sales of new energy vehicles in China reached 576,000 units in 2017, representing a year-on-year increase of 13.6%. Among which, sales volume of pure electric vehicles reached 468,000 units, representing a year-on-year increase of 14.4%.

As the automobile market in China continues to reveal its potentials, vehicle ownership maintained a fast growing trend. According to the Traffic Management Bureau of the Ministry of Public Security, as of December 31, 2017, vehicle ownership totaled 217 million units in China, representing a year-on-year increase of 11.9%. The Group believes that the rapid growth in vehicle ownership will further boost the development of the automobile after-sale services market.

BUSINESS OVERVIEW

Consolidation of Market Position and Expansion of Dealership Outlets

As of the date of this announcement, the Group had 53 dealership outlets and distributed 13 luxury and ultra-luxury brands, eight of which were luxury brands, namely, BMW, MINI, Lexus, Land Rover, Jaguar, Volvo, Zinoro and Alfa Romeo; and five were ultra-luxury brands, namely, Rolls Royce, Aston Martin, Ferrari, Maserati and Bentley.

The Group currently engages in 21 outlets under construction and to be constructed. The authorized outlets are mainly luxury and ultra-luxury brands, including BMW, Maserati, Alfa Romeo and Volvo, which is in line with the long-term strategic layout of the Company. Such 21 outlets under construction and to be constructed are mainly located in mid-west China, first-tier cities and coastal cities. On one hand, the strategic geographical layout can further consolidate the dominant position of the Group in mid-west China and, on the other hand, increase the Group's market penetration in developed regions in China. With the set-up of more authorized outlets and the further progression in mergers and acquisitions of the Company, we believe that the Group will achieve impressive growth in the sales volume of new vehicles in 2018.

Sustained and Steady Growth in New Vehicles Sales

For the year ended December 31, 2017, the Group recorded new vehicle sales volume of 25,917 units, increased by 1,297 units or 5.3% as compared with 24,620 units in 2016.

A breakdown of the new vehicle sales volume of the Group for the year ended December 31, 2017 is as follows:

- Sales volume of BMW brand reached 21,019 units (inclusive of MINI brand). BMW remains as the largest brand under the Group's dealership and its sales volume accounted for 81.1% of the total sales volume.

- Sales volume of Lexus brand was 2,512 units, increased by 30.6% when comparing with the same period of 2016.

Completion of Spin-off of After-sales Services Business

In 2017, Henan Hexie Automobile Aftersales Services Co., Ltd.* (河南和諧汽車維修服務有限公司) (the "**Independent Aftersales Company**") introduced a management team and investments from external investors for the completion of reorganization. Henan Hexie Automobile Trading Co., Ltd.* (河南和諧汽車貿易有限公司), the aftersales management team and the external investors held 49.28%, 25.36% and 25.36% equity interest in the Independent Aftersales Company, respectively. Upon completion of the transaction, the Company remains as an important investor of the Independent Aftersales Company and the Independent Aftersales Company plans to seek for listing after reorganizing the shareholding structure and the maturity of the business development.

* *For identification purpose only*

Progress of New Energy Auto Projects

In recent years, new energy vehicles have been developing rapidly around the globe and in China. The Group, as the founding investor, invested in the establishment of Future Mobility Corporation Limited Cayman ("**FMC**"), which focuses on the R&D and manufacturing of high-end intelligent electric vehicles in 2016. FMC formally launched its automobile brand BYTON (拜騰) in September 2017. As a global intelligent electric vehicle company, FMC is dedicated to manufacture high-end intelligent electric vehicles in China and build up the future for global automobile industry to provide pleasant travelling experience for people. The core teams of FMC are elite talents from large automobile companies and technology companies such as BMW, Tesla, Google, Apple and Infiniti, etc. Powerful R&D teams and experienced management teams provide strong driving force for the development of high-end intelligent electric vehicles.

BYTON Concept, the first model of FMC under the brand of BYTON, was successfully launched in the International Consumer Electronics Show ("**CES**") in Las Vegas, the U.S. on January 7, 2018. BYTON Concept is a luxury intelligent mid-size SUV with technology-inspired brand-new design and an innovative intelligent human-to-vehicle interactive system. The first mass production vehicles, to be equipped with the L3-level Advanced Driver Assistance Systems ("**ADAS**"), will have the L4-level auto-pilot function after 2020. The first mass production vehicles will be officially put into production in the fourth quarter of 2019 in the factory in Nanjing, China, selling price starting from USD45,000 (equivalent to approximately RMB300,000). FMC has set up headquarters, manufacturing and R&D bases in Nanjing, engineering R&D centre in Munich, as well as intelligent, internet and autonomous driving R&D centre in Silicon Valley.

In the third quarter of 2017, FMC completed Series A Financing amounting to USD240 million. The investment was led by local leading private enterprises in Jiangsu, and the investment funds introduced to FMC were managed by well-known investment management institutions and large-scale enterprise group, including Suning, Fullshare and a state-owned enterprise. FMC is listed as a key project in Jiangsu province and is fully supported by Nanjing government and syndicates in the establishment of headquarters and the construction of factories. At the same time, Nanjing government provides additional financial support for R&D and technological innovation of the Company. Due to the appreciation in valuation of FMC, the gain on transferring the investment in an associate to available-for-sale investment generated by the Group during the reporting period was RMB816 million. After FMC enters into mass production in the future, the Group will provide platform supports in new vehicle sales and after-sales services to FMC, and bring in new revenues to the Group.

Strategic Cooperation in Diversified Aspects with Continent Insurance

On January 15, 2018, the Group entered into a strategic cooperation agreement with China Continent Property & Casualty Insurance Company Ltd. ("**Continent Insurance**"), the only property and casualty insurance company under China Reinsurance (Group) Corporation, pursuant to which both parties agreed to cooperate in diversified aspects in terms of Chinese domestic insurance business, investment and financing business and communication on innovation. The Group is of the view that entering into the strategic cooperation agreement will bring along positive impacts to the Group in terms of the following aspects:

1) the business cooperation with Continent Insurance effectively supplements and enhances the existing insurance business of the Group. Regarding automobile insurance, in-depth cooperation will be carried out by focusing on motor vehicle insurance, automobile warranty extension insurance, indemnity insurance for replacement cost of motor vehicle, performance guarantee insurance, property insurance, etc.;

2) Continent Insurance will provide support to the Group in respect of risk management and risk data analysis;

3) as for investment and financing, the two parties will carry out in-depth cooperation in equity, debts, the combination of equity and debts, as well as public, private and financial products;

4) under the brilliant management model of grid sales platform of Continent Insurance, professional training and guidance will be provided to the insurance renewal specialists in the stores of the Group so as to enhance their work efficiency and level, hence increasing the insurance renewal rate of each store; and

5) the development of innovative products in various aspects, including but not limited to non-automobile insurance and personal insurance business.

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 vehicle ownership is far from saturation; hence, there is room for the growth in sales volume of new vehicles. With the increase of household income and upgraded consumer spending, the luxury and ultra-luxury automobile markets grow constantly.

Though ranking first in automobile market scale in the world, China still has a low new energy vehicles penetration level. Under the 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 Group 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;

- actively introducing external investors for comprehensive after-sales business to facilitate its independent listing in the future;

- actively supporting the development and financing of FMC and introducing more external strategic investors in order to accelerate product launching and seeking for independent listing in the future; and

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

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB10,840.4 million for 2017, representing an increase of 1.4% as compared with RMB10,695.9 million in 2016.

Revenue from sales of new vehicles amounted to RMB9,251.2 million, which remained flat as compared to that of 2016, accounting for 85.3% of the revenue.

Revenue from after-sales services increased by 9.5% to RMB1,366.3 million in 2017 from RMB1,247.4 million in 2016, accounting for 12.6% of the revenue.

Cost of sales and services

Our cost of sales and services decreased by 1.0% from RMB9,925.8 million in 2016 to RMB9,822.6 million in 2017. Cost of sales attributable to sales of new vehicles decreased by 2.2% from RMB9,107.6 million in 2016 to RMB8,908.9 million in 2017. Cost of sales attributable to after-sales services increased by 6.1% from RMB746.5 million in 2016 to RMB791.7 million in 2017.

Gross profit and gross profit margin

Our gross profit was RMB1,017.8 million in 2017, representing an increase of 32.2% as compared to RMB770.1 million in 2016. Our gross profit margin was 9.4% in 2017, representing an increase of 2.2 percentage points as compared to 7.2% in 2016.

In 2017, the Group's consolidated gross profit margin, after taking into the effect of commission income contained in the account "other income and gains, net", was 11.9%, representing an increase of 3.2 percentage points as compared to 2016.

Selling expenses

In 2017, selling expenses amounted to RMB787.5 million, increasing by 1.6% from RMB775.4 million in 2016. It was mainly attributed to the increased number in our dealership and after-sales services outlets.

Administrative expenses

Benefited from various effective measures on cost control adopted by the Group, as compared to RMB180.8 million in 2016, administrative expenses decreased by 18.7% to RMB147.0 million in 2017.

Other income and gains, net

Other income and gains, net increased by 305.0% from RMB326.2 million in the corresponding period of 2016 to RMB1,321.2 million in 2017, which was mainly due to:

- commission income for 2017 amounted to RMB307.3 million, which was mainly generated from insurance agency and automobile finance agency business, representing an increase of 70.5% as compared to RMB180.2 million for the corresponding period of 2016;

- income from advertisement support received from manufacturers for 2017 was RMB36.3 million, representing an increase of 44.0% as compared to RMB25.2 million for the corresponding period of 2016;

- gain on transferring the investment in an associate to available-for-sale investment for 2017 was RMB816 million, which was due to the appreciation in valuation of the equity value of FMC held by the Group.

Finance costs

The Group's finance costs for 2017 was RMB63.4 million, representing a decrease of RMB31.6 million or 33.3% as compared to RMB95.0 million in 2016, primarily due to the repayment of part of the bank borrowings by the Group and the enhanced capital utilization in 2017.

Profit from operations

Based on the above, the Group's profit from operations for 2017 was RMB1,404.5 million as compared to RMB66.5 million in 2016.

Profit for the period attributable to the owners of the parent

The Group's profit for the period attributable to owners of the parent for 2017 was approximately RMB1,009.4 million, while there was a net loss of RMB370.7 million recorded for the corresponding period of 2016.

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 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, 2017, cash and deposits of the Group totaled RMB1,698.5 million.

In 2017, our net cash from operating activities was RMB107.3 million, net cash from investing activities was RMB65.4 million, and net cash used in financing activities was RMB238.0 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, 2017, the Group had net current assets of RMB2,076.3 million as compared to RMB1,625.2 million as at December 31, 2016.

Capital expenditure

In 2017, 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 RMB313.9 million (2016: RMB481.6 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 increased by RMB386.3 million from RMB885.1 million as of December 31, 2016, to RMB1,271.4 million as of December 31, 2017. The increase in the Group's inventory of new vehicles was mainly due to (1) discounted sales of aged inventory by the Group in the second half of 2016, resulting in the relatively low inventory as of December 31, 2016 and the recovery of inventory to normal operation level in 2017; (2) the increase in the dealership outlets in 2017 to introduce new brands such as Alfa Romeo and Bentley; and (3) the Group's preparation for the peak sales season in 2018 due to the arrival of the new product cycle of BMW and other brands. 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.

The Group's average inventory turnover days for 2017 were 40 days, which remained the same as 2016.

Bank loans and other borrowings

As at December 31, 2017, the Group had bank loans and other borrowings in the aggregate amount of RMB1,816.3 million, representing a year-on-year decrease of 2.5% as compared to RMB1,863.4 million as at December 31, 2016.

	December 31, 2017 RMB'000	December 31, 2016 RMB'000
Bank loans repayable:		
Within one year	**732,800**	1,087,696
In the second year	**15,980**	21,332
In the third to fifth years	**–**	17,610
	748,780	1,126,638
Other borrowings repayable:		
Within one year	**1,067,556**	736,721
Total	**1,816,336**	1,863,359

As at December 31, 2017, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 37.2%, representing a decrease of 5.8 percentage points as compared with that of December 31, 2016.

As at December 31, 2017, 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, 2017, consisted of (i) inventories in the amount of RMB718.4 million; (ii) property, plant and equipment in the amount of RMB25.7 million; and (iii) prepaid land lease payments in the amount of RMB11.5 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, 2017, the Group did not have bank borrowings, loans or bonds payable denominated in foreign currency.

Contingent liabilities

As at December 31, 2017, we 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. 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, 2017, the Group had a total of 3,303 employees (December 31, 2016: 5,363 employees). The change in number of employees was due to restructuring of comprehensive after-sales business. Relevant staff cost for 2017 was approximately RMB363.4 million (including employee share incentive of RMB7.7 million), while the staff cost was approximately RMB398.8 million for 2016 (including employee share incentive of RMB22.8 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 RSU Scheme), as at December 31, 2017, a total of 19,110,898 shares under the RSU 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 twelve months ended December 31, 2017, a total of 14,355,683 RSU awards were exercised. As at December 31, 2017, 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 did not have any 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, 2017, the Company had 84,050,000 share options outstanding under the share option scheme, which represented approximately 5.5% 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 2017 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, 2017, the Company repurchased a total of 37,663,500 of ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$140,127,587.10 (excluding transaction cost). The 37,663,500 repurchased shares were subsequently cancelled on July 17, 2017. Details of the shares repurchased during the period are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share		Aggregate consideration (excluding transaction cost)
		Highest	Lowest	
		(HK$)	*(HK$)*	*(HK$)*
January 2017	1,988,500	3.76	3.62	7,388,875.00
February 2017	30,759,500	3.94	3.67	116,633,000.00
April 2017	1,035,000	3.27	3.17	3,346,170.00
May 2017	1,980,000	3.40	2.66	6,230,394.00
June 2017	1,900,500	3.59	3.29	6,529,148.10
Total	37,663,500			140,127,587.10

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would benefit shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended December 31, 2017.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period ended December 31, 2017 and up to the date of this announcement which would have any material effect to the Group.

FINAL DIVIDEND

The Board proposed a final dividend of HK13 cents for each ordinary share for the year ended December 31, 2017. The final dividend shall be subject to approval of the shareholders at the forthcoming annual general meeting and if approved, the final dividend shall be paid on or before August 13, 2018 to the shareholders of the Company. Further announcements will be published for details on the closure of register of members to determine the entitlement of shareholders to the proposed final dividend.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended December 31, 2017, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (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 CG 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 June 9, 2017 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 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, 2017.

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, 2017 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, 2017.

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 26, 2018

As at the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Liu Fenglei, Ms. Feng Guo 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.