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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 (collectively, the "**Group**") for the six months ended 30 June 2018.

The unaudited consolidated results have been reviewed by the Audit Committee of the Company (the "**Audit Committee**").

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Notes	**For the six months ended 30 June 2018 Unaudited** ***RMB'000***	For the six months ended 30 June 2017 Unaudited *RMB'000*
Revenue	5(a)	**4,687,357**	5,085,222
Cost of sales and services	6(b)	**(4,210,198)**	(4,591,766)
Gross profit		**477,159**	493,456
Other income and gains, net	5(b)	**438,430**	574,325
Selling and distribution expenses		**(249,879)**	(253,580)
Administrative expenses		**(77,363)**	(48,543)
Profit from operations		**588,347**	765,658
Finance costs	7	**(30,725)**	(34,763)
Share of profits and losses of			
Joint ventures		**8**	293
Associates		**(42,968)**	(76,824)
Profit before tax	6	**514,662**	654,364
Income tax expense	8	**(83,393)**	(86,675)
Profit for the period		**431,269**	567,689
Attributable to:			
Owners of the parent		**424,424**	564,742
Non-controlling interests		**6,845**	2,947
		431,269	567,689
Earnings per share attributable to ordinary equity holders of the parent	10		
Basic *(RMB)*		**0.28**	0.37
Diluted *(RMB)*		**0.27**	0.37

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June 2018 Unaudited *RMB'000*	For the six months ended 30 June 2017 Unaudited *RMB'000*
PROFIT FOR THE PERIOD	**431,269**	567,689
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,226**	(29,957)
Other comprehensive income/(loss) for the period, net of tax	**2,226**	(29,957)
Total comprehensive income for the period, net of tax	**433,495**	537,732
Attributable to:		
Owners of the parent	**426,650**	534,785
Non-controlling interests	**6,845**	2,947
	433,495	537,732

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	**30 June 2018 Unaudited** *RMB'000*	31 December 2017 Audited *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,164,005**	1,976,165
Prepaid land lease payments		**11,297**	11,497
Intangible assets		**106,404**	108,379
Goodwill		**57,911**	57,911
Prepayments	11	**407,088**	420,183
Finance lease receivables		**39,547**	14,512
Investments in joint ventures		**5,597**	5,589
Investments in associates		**746,073**	789,041
Available-for-sale investments		**–**	887,023
Financial assets at fair value through profit or loss		**1,133,147**	–
Deferred tax assets		**49,679**	50,366
Total non-current assets		**4,720,748**	4,320,666
CURRENT ASSETS			
Inventories	12	**1,430,605**	1,271,376
Trade receivables	13	**95,593**	106,190
Finance lease receivables		**20,468**	6,724
Prepayments, deposits and other receivables	14	**2,807,044**	2,553,068
Available-for-sale investments		**–**	120,577
Financial assets at fair value through profit or loss		**144,792**	–
Pledged and restricted bank deposits		**47,177**	81,043
Cash in transit		**54,759**	37,085
Cash and bank balances		**971,481**	1,580,378
Total current assets		**5,571,919**	5,756,441

	Notes	30 June 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
CURRENT LIABILITIES			
Bank loans and other borrowings	15	**1,590,662**	1,800,356
Trade and bills payables	16	**114,463**	206,207
Other payables and accruals		**917,575**	918,371
Dividends payable		**160,973**	–
Income tax payable		**779,191**	755,221
Total current liabilities		**3,562,864**	3,680,155
NET CURRENT ASSETS		**2,009,055**	2,076,286
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,729,803**	6,396,952
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	15	**7,174**	15,980
Deferred tax liabilities		**50,381**	50,507
Total non-current liabilities		**57,555**	66,487
NET ASSETS		**6,672,248**	6,330,465
EQUITY			
Equity attributable to owners of the parent			
Share capital		**12,182**	12,176
Treasury shares		**(19,800)**	–
Reserves		**6,629,876**	6,275,144
		6,622,258	6,287,320
Non-controlling interests		**49,990**	43,145
Total equity		**6,672,248**	6,330,465

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Harmony New Energy 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 ("**Listing**").

The Company is an investment holding company. The Company and its subsidiaries 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 (the "**Reporting Period**") have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The interim condensed consolidated financial statements have been prepared under the historical cost convention except financial assets at fair value through profit or loss, which have been measured at fair value. 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 29 August 2018. 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 2017, except for the adoption of the new and revised standards and interpretation as of 1 January 2018, noted below:

The following new standards and amendments to the standards are mandatory for the first time for the financial year beginning 1 January 2018:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

The impact of the adoption of HKFRS 9 Financial Instruments is disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2.3 New and revised HKFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted

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

Amendments to HKFRS 9	*Prepayment Features with Negative term Compensation* [1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 16	*Leases*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Annual Improvements 2015–2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2021

3 No mandatory effective date yet determined but available for adoption

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

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As a result of the changes in the Group's accounting policies, the Group will not restate comparative information and will recognise any transaction adjustments against the opening balance of equity at 1 January 2018.

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	**31 December 2017 As originally presented**	**Impact of adopting HKFRS 9**	**Reclassification HKFRS 9**	**1 January 2018 Restated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments ("AFS")	1,007,600	68,604	(1,076,204)	–
Financial assets at fair value through profit or loss ("FVPL")	–	–	1,076,204	1,076,204
Reserves	6,275,144	68,604	–	6,343,748

(b) HKFRS 9 Financial Instruments – Impact of adoption

(i) Unlisted equity investment, unlisted private fund in the PRC and wealth management product previously classified as AFS

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

The Group elected to present in profit or loss ("PL") changes in the fair value of all its unlisted equity investment, unlisted private fund in the PRC and wealth management product previously classified as AFS, because these investments did not pass the contractual cash flow characteristics test in HKFRS 9. As a result, assets with a fair value of RMB1,076,204,000 were reclassified from AFS to FVPL on 1 January 2018.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 3(c) below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018

	AFS	**FVPL**
	RMB'000	*RMB'000*
Closing balance 31 December 2017 – HKAS 39	1,007,600	–
Impact of adopting HKFRS 9	68,604	–
Reclassify from AFS to FVPL	(1,076,204)	1,076,204
Opening balance 1 January 2018 – HKFRS 9	–	1,076,204

(ii) Impairment of financial assets

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applies the simplified approach and record lifetime expected losses of trade receivables. The Group applies the general approach to other debt instruments recorded at amortised cost. The impacts relate to the provision for impairment are immaterial.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement category:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through PL), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in PL or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at financial assets at fair value through OCI ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on de-recognition is recognised directly in profit or loss and presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Impairment

From 1 January 2018, the Group assesses the expected credit losses associated with its financial assets on a forward looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

4. 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 were generated from the sale of automobiles and provision of after-sales services 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.

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.

5. 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.

	For the six months ended 30 June 2018 Unaudited ***RMB'000***	For the six months ended 30 June 2017 Unaudited *RMB'000*
Revenue from the sale of automobiles	**3,999,083**	4,314,487
Provision of after-sales services	**606,357**	664,658
Others	**81,917**	106,077
	4,687,357	5,085,222

(b) Other income and gains, net:

	For the six months ended 30 June 2018 Unaudited ***RMB'000***	For the six months ended 30 June 2017 Unaudited *RMB'000*
Commission income	**147,115**	145,077
Advertisement support received from motor vehicle manufacturers	**21,895**	9,423
Bank interest income	**11,085**	17,343
Interest income from loans to an associate	**32,389**	–
Interest income from loans to a third party	**2,054**	4,374
Gain on deemed disposal of subsidiaries	**–**	36,185
Gain on deemed disposal of an associate	**–**	26,941
Gain on transferring an associate investment to available-for-sale investments	**–**	306,009
Loss on disposal of shares in a financial asset at fair value through profit or loss	**(235,603)**	–
Fair value gain on a financial asset at fair value through profit or loss	**452,741**	–
Others	**6,754**	28,973
Total	**438,430**	574,325

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June 2018 Unaudited ***RMB'000***	For the six months ended 30 June 2017 Unaudited *RMB'000*
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**106,795**	104,941
Equity-settled share option expense	**18,606**	(737)
Other welfare	**14,553**	15,896
	139,954	120,100
(b) Cost of sales and services:		
Cost of sales of automobiles	**3,848,525**	4,140,517
Cost of after-sales services	**317,405**	383,440
Others	**44,268**	67,809
	4,210,198	4,591,766
(c) Other items		
Depreciation of items of property, plant and equipment	**66,019**	66,839
Amortisation of prepaid land lease payments	**200**	200
Amortisation of intangible assets	**2,297**	1,149
Loss on disposal of items of property, plant and equipment, net	**8,875**	4,341
Advertisement and business promotion expenses	**25,419**	22,670
Bank charges	**3,385**	3,675
Minimum lease payments under operating leases	**23,190**	30,945
Foreign exchange differences, net	**(391)**	803

7. FINANCE COSTS

	For the six months ended 30 June 2018 Unaudited *RMB'000*	For the six months ended 30 June 2017 Unaudited *RMB'000*
Interest on bank loans and other loans	**34,331**	38,372
Less: Interest capitalised	**(3,606)**	(3,609)
	30,725	34,763

8. INCOME TAX

	For the six months ended 30 June 2018 Unaudited *RMB'000*	For the six months ended 30 June 2017 Unaudited *RMB'000*
Current Mainland China corporate income tax	**82,832**	99,388
Deferred tax	**561**	(12,713)
	83,393	86,675

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. There are 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%.

9. DIVIDENDS

A final dividend of HK$0.130 (equivalent to approximately RMB0.105) per ordinary share totaling HK$200,120,203 (equivalent to approximately RMB160,973,154) was approved at the annual general meeting on 13 June 2018. The dividend was subsequently paid on 13 August 2018.

The Board proposed not to declare any interim dividend for the six months ended 30 June 2018.

10. 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 restricted share unit 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 2018 Unaudited ***RMB'000***	For the six months ended 30 June 2017 Unaudited *RMB'000*
Earnings		
Profit for the period attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**424,424**	564,742

	Number of shares	
	For the six months ended 30 June 2018 Unaudited	For the six months ended 30 June 2017 Unaudited
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,536,729,857**	1,541,342,202
Effect of dilution – weighted average number of ordinary shares:		
– Restricted shares	**–**	2,592,370
– Share options	**23,849,182**	–
	1,560,579,039	1,543,934,572

11. PREPAYMENTS

	30 June 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
Prepayments for purchase of items of property, plant and equipment	**362,129**	389,474
Prepayments for leasing buildings and land	**44,959**	30,709
	407,088	420,183

12. INVENTORIES

	30 June 2018	31 December 2017
	Unaudited	Audited
	RMB'000	*RMB'000*
Automobiles	**1,289,328**	1,146,651
Spare parts and accessories	**141,277**	124,725
	1,430,605	1,271,376

As at 30 June 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB658,744,000 (31 December 2017: approximately RMB718,430,000) were pledged as security for the Group's bank loans and other borrowings.

As at 30 June 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB20,739,000 (31 December 2017: approximately RMB78,852,000) were pledged as security for the Group's bills payable.

13. TRADE RECEIVABLES

	30 June 2018	31 December 2017
	Unaudited	Audited
	RMB'000	*RMB'000*
Trade receivables	**95,593**	106,190

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 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
Within 3 months	**83,653**	90,432
More than 3 months but less than 1 year	**11,940**	15,758
	95,593	106,190

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

	30 June 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
Neither past due nor impaired	**95,593**	106,190

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.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
Prepayments to suppliers	**539,876**	536,980
Rebate receivables	**606,420**	553,665
Loans to a third party	**–**	200,000
Insurance commission receivable	**28,577**	22,650
Due from associates *(i)*	**1,130,966**	1,022,626
Others	**501,205**	217,147
	2,807,044	2,553,068

Notes:

(i) As of 30 June 2018, the Group had balances with its associate, 鄭州永達和諧汽車銷售服務有限公司(Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.), ("**Yongda Hexie**"), with an amount of RMB910,000. The balance is unsecured and non-interest-bearing and has no fixed repayment term.

As of 30 June 2018, the Group had advances balance due from to its associated company, 河南和諧汽車維修服務有限公司(Henan Hexie Automobile Aftersales Services Co., Ltd., (the "**Independent Aftersales Company**"), with an amount of RMB1,097,667,000. The advances bear interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and have no fixed repayment terms and guaranteed by a shareholder of the Company.

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.

15. BANK LOANS AND OTHER BORROWINGS

	30 June 2018 Unaudited		31 December 2017 Audited	
	Effective Interest rate	**Amount**	Effective Interest rate	Amount
	(%)	***RMB'000***	*(%)*	*RMB'000*
Current				
Bank loans	**4.4–7.5**	**676,081**	4.4–8.7	732,800
Other borrowings	**4.0–8.7**	**914,581**	4.0–8.7	1,067,556
		1,590,662		1,800,356
Non-current				
Bank loans	**7.5**	**7,174**	7.5	15,980
		1,597,836		1,816,336

	30 June 2018 Unaudited	31 December 2017 Audited
	RMB'000	*RMB'000*
Bank loans and other borrowings representing:		
– secured	**50,000**	353,762
– guaranteed	**538,256**	609,347
– secured and guaranteed	**1,009,580**	853,227
	1,597,836	1,816,336
Analysed into:		
Bank loans repayable:		
Within one year	**676,081**	732,800
In the second year	**7,174**	15,980
	683,255	748,780
Other borrowings repayable:		
Within one year	**914,581**	1,067,556
	1,597,836	1,816,336

16. TRADE AND BILLS PAYABLES

	30 June 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
Trade payables	**87,537**	82,750
Bills payable	**26,926**	123,457
Trade and bills payables	**114,463**	206,207

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

	30 June 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
Within 3 months	**105,316**	200,725
3 to 6 months	**6,544**	2,248
6 to 12 months	**1,783**	1,057
Over 12 months	**820**	2,177
Total	**114,463**	206,207

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In the first half of 2018, China's automobile industry showed a steady growth in sales volume. According to the statistics from China Association of Automobile Manufacturers, sales volume of passenger vehicles in China reached 11.775 million units in the first half of 2018, representing a year-on-year increase of approximately 4.64%. As the market of luxury vehicles was affected by three major factors, namely stagnant real estate market, slumped stock market and unstable tariff policies, the growth in sales volume of each luxury vehicles brand varied. Anticipating clear policies and reviving economy in the second half of the year, combined with the upward trend of per capita disposable income, the consumption upgrades, the rising consumption in second-tier and third tier cities in China and continuous launching of new vehicle models from vehicle manufacturers, the Group believes that the luxury vehicle market will continue to experience rapid growth, as a result, the proportion of overall sales volume of luxury vehicles in the overall sales volume of passenger vehicles in China will continue to ascend.

New energy vehicle sales in China continued to maintain rapid growth. Statistics of China Association of Automobile Manufacturers showed that sales of new energy vehicles in China reached 412,000 units in the first half of 2018, representing a year-on-year increase of approximately 111.3%. Among which, sales volume of battery electric vehicles (BEVs) reached 313,000 units, representing a year-on-year increase of approximately 95.6%.

On 22 May 2018, the Customs Tariff Commission of the Chinese State Council announced that, as approved by the State Council, with effect from 1 July 2018, the tariff on imported vehicles with tax rate of 20% and 25%, respectively, would both be reduced to 15%, representing an average tax reduction of 32.5%; and the tariff on spare parts of automobiles with tax rate of 8% to 25%, would be reduced to 6%, representing an average tax reduction of 46%. The reduction in tariff on vehicle imports is an important measure for further expansion of the reform and opening-up in China. The significant reduction in tariff on vehicle imports will advance the supply-side structural reform, promote structural adjustment, transformation and upgrade in the automobile industry, and lead to the enhancement of quality and efficiency of automotive products, so as to improve domestic market supply, satisfy various needs of population and provide more extensive and economical shopping experience to domestic consumers.

With the sustained growth of potential of the automobile market in China, vehicle ownership maintained a fast-growing trend. According to the Traffic Management Bureau of the Ministry of Public Security, as of 30 June 2018, vehicle ownership totalled 229 million units in China. The number of newly-registered vehicles reached 13.81 million units. The number of motorists reached 396 million and the number of newly-licensed drivers reached 13.25 million. The Group believes that the continuous growing number in vehicle ownership will further boost the development of sales market of both new vehicles and automobile after-sales services.

Business Overview

Accelerating National Layout and Reinforcing Regional Advantages of Brand Portfolio

As of the date of this announcement, the Group had a total of 54 dealership outlets in operation, covering 22 cities across the country and distributing 13 luxury and ultra-luxury brands, 8 of which were luxury brands, namely, BMW, MINI, Lexus, Jaguar, Land Rover, Volvo, Zinoro and Alfa Romeo; and 5 were ultra-luxury brands, namely, Rolls Royce, Aston Martin, Ferrari, Maserati and Bentley.

The Group currently has 24 authorized dealership outlets under construction or to be constructed, which covered luxury and ultra-luxury brands, including core brands such as BMW, Maserati, Alfa Romeo, Volvo and Bentley, and two new luxury brands – Audi and Lincoln. Such 24 authorized outlets cover provincial capitals or municipalities including Zhengzhou, Beijing, Guangzhou and Wuhan, also newly extended into 9 cities with high growth potential, including Ningbo, Hohhot, Taiyuan and Dongguan. The strategic branding and geographical layout can not only further strengthen the leading position of the Group in mid-west China, but also enhance the recognition and market penetration of the Group nationwide.

The following table sets forth the details of the dealership outlets of the Group as of 30 June 2018:

	Outlets in operation	**Outlets pending operation**	**Total**
Authorized outlets of ultra-luxury brands	15	5	20
Authorized outlets of luxury brands	39	19	58
Total	54	24	78

In order to uphold the advantages in brand mixture and regional layout, and further enhance economies of scale and channel strategy, the Group plans to apply for more authorized dealership outlets in the second half of 2018. With the gradual opening of dealership outlets currently under construction or pending construction, in addition to the downward adjustment to tariff which stimulates the sales of imported vehicles, we believe that the Group will record significant growth in the sales of new vehicles in the second half of 2018.

For the six months ended 30 June 2018, the Group recorded new vehicle sales volume of 11,274 units. BMW remains as the largest brand sold under the Group's dealership.

Continuous Growth in After-sales Services and Stable Increase in Commission Income

For the six months ended 30 June 2018, the Group provided services to 142,611 units of vehicles in total, representing a year-on-year increase of approximately 9.45%. The Group proactively enhanced customer satisfaction and brand reputation in order to continuously increase customer loyalty. Through offering exclusively customized and diversified services to customers, such as high-performance repairing and maintenance, detailing, fast spray painting, insurance renewal and extended warranties, along with employing varied marketing methods, including online marketing, cross-industry alliance and membership system, and organizing regular and special pertinent activities for customers, the Group leveraged its leading advantages in the region to extend its scope of services, for the purpose of expanding its customer base which led to the growth in after-sales business. In the meantime, the Group engaged in a new approach to existing after-sales customers by precisely understanding and actively caring for the needs of customers. This strengthened the trustworthiness and reliance to our services, thereby increasing the retention rate of customers.

The Group entered into a strategic cooperation framework agreement with China Continent Property & Casualty Insurance Company Ltd. while optimizing the Group's connection with various major insurance companies in Henan province thereby increase the proportion of the revenue contributed by accident cars under its after-sales services business. This will increase the individual claim amount and the loss ratio of accident cars, enhancing customer's satisfaction and increasing the insurance compensation income of the Group.

Progress of New Energy Auto Projects

Future Mobility Corporation Limited Cayman ("**FMC**"), whose brand name is Byton, a globally renowned high-end smart intuitive electric vehicle manufacturer of which the Group is one of the shareholders, has completed a US$500 million in Series B financing in the second quarter of 2018, with a post investment valuation of US$2.2 billion. As the leading investor, FAW Group (一汽集團) invested US$264 million, with other investments from Contemporary Amperex Technology (寧德時代), Tus-Holdings (啟迪控股), as well as other corporates and funds. FAW Group not only invested US$264 million, but also entered into a strategic cooperation framework agreement with FMC. In the future, both parties will carry out in-depth cooperation in the areas of development, production, sales and services of intelligent internet of vehicles products.

After launching the first concept vehicle M–Byte (SUV) in January 2018, on 12 June 2018, FMC held an event "Byton Night" (拜騰之夜) in Shanghai, and unveiled the second concept vehicle named "K-Byte Concept". K-Byte Concept, a luxury vehicle equipped with L4 autonomous driving, is scheduled for mass production in 2021. The Company is currently developing a third concept vehicle model which will be a seven-seat luxury multi-utility vehicle (MPV).

In April 2018, FMC's global headquarters in Nanjing officially commenced its operation and the trial vehicles production in the factory was put into operation, the first batch of prototype vehicles has rolled off the production line and under-gone related tests. The four major production workshops of stamping, welding, painting and assembly in Nanjing factories will also be completed by end of 2018. The production machines will be installed successively, and M–Byte will be officially launched to the market and delivered to the customers in the fourth quarter of 2019 as planned.

With the release of various type of vehicles, completed construction of factories and official mass production of new vehicles, FMC will start launching its IPO plan, during which the Group will not only obtain superior investment income through the listing of FMC, but also bring more diversified income to the Group under new energy auto project as we have reached cooperation intention with FMC in sales of new vehicles and after-sales services.

Comprehensive After-sales Services

As of the date of this announcement, 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**"), an associate of the Group, has a total of 80 services outlets, of which, 42 were centre outlets and 38 were community outlets, covering 4 municipalities and 29 cities across 18 provinces. All centre outlets are eligible for approved car workshops, loss assessment, claim settlement and direct repair program, which approved by the three major insurance companies (People's Insurance Company of China, Ping An Insurance (Group) Company of China, Ltd. and China Pacific Insurance (Group) Co., Ltd.). The Independent Aftersales Company is operated under the brand "Harmony Auto Maintenance" (和諧汽修), providing after-sales services for models of mainstream luxury and ultra-luxury automobile brands, yet are not only limited to those authorized brands obtained by the Group. In additional to that, it also offers authentication tests for parts and installation of accessories and equipment. Utilizing its advantages of nationwide unified platform, the Independent Aftersales Company is able to provide more thorough and methodical solutions with more proficient and meticulous technical services to problems and malfunction of luxury-brand automobiles at lower prices. All technicians from Independent Aftersales Company have received professional training from technical experts who have served years at luxury automobiles manufacturers, thus our after-sales services are equivalent to those provided in authorized after-sales services workshops.

Meanwhile, the Independent Aftersales Company is also the authorized after-sales service supplier of both TESLA and NIO, partial of its technicians have obtained technical certifications from TESLA and NIO and become the first group of technicians in China receiving certifications recognised globally. The Independent Aftersales Company has become the sole carbon fiber repairing service provider in China with regard to its composite repairing techniques of carbon fiber used in ultra-luxury automobiles.

* *For identification purpose only*

FUTURE OUTLOOK AND DEVELOPMENT STRATEGIES

In the opinion of the Group, the market penetration 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, upgraded consumer spending and downward adjustment of tariffs, the luxury and ultra-luxury automobile markets will achieve constant growth.

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 awareness on environmental protection among consumers increase 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 on ongoing basis with an aim to further boost up its scale in income and profitability to create greater value for its shareholders:

- rapidly developing dealership business, proactively expanding dealership network and enhancing profitability of new outlets;

- through providing customers with diversified and customized automobile related services, increasing the loyalty and reliance of customers, thereby enhancing the income from automotive aftermarket and commission income;

- providing great support for the future development and financing of FMC, introducing more external strategic investors, speeding up the launch schedule of products, and pushing forward the listing of FMC. The Company will continue in-depth collaboration in terms of new vehicles sales and after-sales services so as to share competitive advantages and generate diversified revenue.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB4,687.4 million for the first half of 2018, representing a decrease of 7.8% as compared to RMB5,085.2 million for the corresponding period of 2017. Revenue from sales of new passenger vehicles and revenue from after-sales services and accessories business were RMB3,999.1 million and RMB688.3 million respectively.

Revenue of the Group mainly came from sales of new passenger vehicles, accounting for 85.3% of the first half of 2018. The remaining revenue came from after-sales services and accessories business, accounting for 14.7% of the first half of 2018. In terms of revenue from sales of new passenger vehicles, BMW brand recorded the highest revenue from new vehicles sales of the Group, accounting for approximately 71.8% of the total revenue from sales of new passenger vehicles.

Cost of sales and services provided

Cost of sales and services of the Group decreased by 8.3% from RMB4,591.8 million for the corresponding period of 2017 to RMB4,210.2 million in the first half of 2018. Cost of sales from the new passenger vehicles business and cost of sales from after-sales services and accessories business were RMB3,848.5 million and RMB361.7 million respectively.

Gross profit

In the first half of 2018, gross profit of the Group amounted to RMB477.2 million, and gross profit margin of the Group was 10.2%.

In the first half of 2018, gross profit from sales of new passenger vehicles was RMB150.6 million, and gross profit margin of the Group was 3.8%.

In the first half of 2018, gross profit from after-sales services and accessories business was RMB326.6 million, with a gross profit margin of 47.5%, contributing 68.4% to the gross profit of the Group.

Other income and gains, net

Other income and gains, net decreased by 23.7% from RMB574.3 million for the corresponding period of 2017 to RMB438.4 million in the first half of 2018. Other income and gains mainly comprises the commission income (from insurance agency and vehicle financing agency service), gains on trading of second-hand vehicles, income from advertisement support from automobile manufacturers, interest income as well as fair value gain on financial assets at fair value through profit or loss.

Profit attributable to the owners of the parent

The Group's profit for the period attributable to owners of the parent for the first half of 2018 was approximately RMB424.4 million, representing a decrease of 24.8% as compared against RMB564.7 million for the corresponding period of 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group's primary uses of cash are for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership 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 2018, cash and deposits of the Group totalled RMB1,073.4 million.

For the first half of 2018, the Group's net cash used in operating activities was RMB233.9 million, net cash used in investing activities was RMB106.0 million, and net cash used in financing activities was RMB270.8 million.

Taking into account the Group's existing cash and cash equivalents, anticipated cash 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 2018, the Group had net current assets of RMB2,009.1 million, representing a decrease of 3.2% as compared to net current assets of RMB2,076.3 million as of 31 December 2017.

Capital expenditure

The Group's capital expenditure (primarily used for the expenditure generated from the purchase of property, plant and equipment in connection with the establishment of new outlets) for the first half of 2018 and the corresponding period of 2017 was RMB333.1 million and RMB106.1 million, respectively.

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 increased by RMB159.2 million, or 12.5%, from RMB1,271.4 million as of 31 December 2017 to RMB1,430.6 million as of 30 June 2018, primarily due to the preparation of inventories for the peak season in the second half of the year.

Bank loans and other borrowings

As at 30 June 2018, the Group had bank loans and other borrowings in the aggregate amount of RMB1,597.8 million, representing a decrease of 12.0% as compared to RMB1,816.3 million as at 31 December 2017. The table below sets forth breakdowns of our bank loans and other borrowings as of the indicated dates:

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Bank loans repayable:		
Within one year or on demand	**676,081**	732,800
In the second year	**7,174**	15,980
	683,255	748,780
Other borrowings repayable:		
Within one year or on demand	**914,581**	1,067,556
Total	**1,597,836**	1,816,336

As at 30 June 2018, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 35.2%, representing a decrease of 2 percentage points as compared with that of 31 December 2017.

Contingent liabilities

As at 30 June 2018, 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. 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 loan rates published by the People's Bank of China. The Group does not currently use any derivative instruments to manage the Company's interest rate risk.

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

Employees and remuneration policies

As at 30 June 2018, the Group had a total of 3,348 employees (31 December 2017: 3,303 employees). Relevant staff cost for the first half of 2018 was approximately RMB140.0 million, while the staff cost was approximately RMB120.1 million for the corresponding period of 2017. The remuneration packages for employees are based on individual experience and work duties. The remuneration packages are subject to annual review by the management, taking into account the overall performance of the staff and market condition. The Group also participates in the State-managed Retirement Benefit Scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong. In addition, eligible employees are also entitled to restricted share units under the restricted share unit scheme and share options under the share option scheme adopted by the Company.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the reporting period, the Company repurchased a total of 5,200,000 of ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$24,686,075.00 (excluding transaction cost). Details of the shares repurchased during the reporting period are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share Highest *(HK$)*	Lowest *(HK$)*	Aggregate consideration *(HK$)* (excluding transaction cost)
April 2018	5,200,000	4.96	4.60	24,686,075.00

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 during the reporting period.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period ended 30 June 2018 and up to the date of this announcement which would have any material effect to the Group.

INTERIM DIVIDEND

At the meeting of the Board held on 29 August 2018, the Board resolved not to pay interim dividends to the shareholders of the Company (2017: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2018, 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 and Mr. Xiao Changnian, chairman of the Audit Committee were not able to attend the annual general meeting of the Company held on 13 June 2018 due to other 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 have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the six months ended 30 June 2018.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the requirements of the Listing Rules and the Corporate Governance 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 2018.

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.

APPRECIATION

The Board would like to express its sincere gratitude to the shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

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
29 August 2018

As of the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Liu Fenglei, Ms. Ma Lintao, Ms. Feng Guo and Mr. Han Yang, and the independent non-executive directors of the Company are Mr. Xiao Changnian, Mr. Liu Zhangmin and Mr. Xue Guoping.