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, 2018

RESULTS HIGHLIGHTS

The Group recorded new vehicle sales volume of 26,998 units for the year ended December 31, 2018, increased by 4.2% as compared with 25,917 units in 2017.

Our revenue for the year ended December 31, 2018 amounted to RMB10,639.9 million, representing a slight increase as compared to RMB10,604.1 million, net of revenue from the spin-off business, for 2017. Among which, revenue from after-sale services recorded an increase, net of revenue from the spin-off business, of 13.2% as compared to that of 2017.

The Group achieved profit attributable to owners of the parent for the year ended December 31, 2018 of RMB683.7 million.

Basic and diluted earnings per share for the year ended December 31, 2018 were RMB0.45 and RMB0.44, respectively.

The Board proposed a final dividend of HK12 cents for each ordinary share.

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, 2018. The consolidated results have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended December 31,	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
REVENUE	4(a)	**10,639,877**	10,840,411
Cost of sales and services	5(b)	**(9,883,361)**	(9,822,566)
Gross profit		**756,516**	1,017,845
Other income and gains, net	4(b)	**942,016**	1,321,199
Selling and distribution expenses		**(549,060)**	(787,488)
Administrative expenses		**(155,172)**	(147,013)
PROFIT FROM OPERATIONS		**994,300**	1,404,543
Finance costs	6	**(67,686)**	(63,437)
Share of profits and losses of:			
Joint ventures		**17**	(18,587)
Associates		**(109,461)**	(99,137)
PROFIT BEFORE TAX	5	**817,170**	1,223,382
Income tax expense	7	**(127,186)**	(202,094)
PROFIT FOR THE YEAR		**689,984**	1,021,288
Attributable to:			
Owners of the parent		**683,692**	1,009,356
Non-controlling interests		**6,292**	11,932
		689,984	1,021,288
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic *(RMB)*		**0.45**	0.66
Diluted *(RMB)*		**0.44**	0.65

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**689,984**	1,021,288
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(1,290)**	(46,072)
Other comprehensive loss for the year, net of tax	**(1,290)**	(46,072)
Total comprehensive income for the year, net of tax	**688,694**	975,216
Attributable to:		
Owners of the parent	**682,402**	963,284
Non-controlling interests	**6,292**	11,932
	688,694	975,216

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at December 31,	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,522,989**	1,976,165
Prepaid land lease payments		**11,097**	11,497
Intangible assets		**104,991**	108,379
Goodwill		**57,911**	57,911
Prepayments and other assets		**1,603,233**	420,183
Finance lease receivables		**81,528**	14,512
Investments in joint ventures		**5,606**	5,589
Investments in associates		**686,222**	789,041
Available-for-sale investments		**–**	887,023
Financial assets at fair value through profit or loss		**1,377,410**	–
Deferred tax assets		**48,823**	50,366
Total non-current assets		**6,499,810**	4,320,666
CURRENT ASSETS			
Inventories	10	**1,124,419**	1,271,376
Trade receivables	11	**123,352**	106,190
Finance lease receivables		**50,532**	6,724
Prepayments, other receivables and other assets		**1,797,166**	2,553,068
Available-for-sale investments		**–**	120,577
Financial assets at fair value through profit or loss		**167,577**	–
Pledged and restricted bank deposits		**74,947**	81,043
Cash in transit		**35,964**	37,085
Cash and bank balances		**1,148,300**	1,580,378
Total current assets		**4,522,257**	5,756,441

	Notes	As at December 31, 2018 RMB'000	2017 RMB'000
CURRENT LIABILITIES			
Bank loans and other borrowings		**2,137,604**	1,800,356
Trade and bills payables	12	**136,317**	206,207
Other payables and accruals		**987,420**	918,371
Income tax payable		**786,111**	755,221
Total current liabilities		**4,047,452**	3,680,155
NET CURRENT ASSETS		**474,805**	2,076,286
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,974,615**	6,396,952
NON-CURRENT LIABILITIES			
Bank loans and other borrowings		**–**	15,980
Deferred tax liabilities		**53,337**	50,507
Total non-current liabilities		**53,337**	66,487
NET ASSETS		**6,921,278**	6,330,465
EQUITY			
Equity attributable to owners of the parent			
Share capital		**12,085**	12,176
Reserves		**6,866,308**	6,275,144
		6,878,393	6,287,320
Non-controlling interests		**42,885**	43,145
Total equity		**6,921,278**	6,330,465

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 Cititrust Private Trust (Cayman) Limited, which is incorporated in the Cayman Islands ("**Cayman Islands**").

2.1 BASIS OF PREPARATION

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 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

Other than as explained below regarding the impact of HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and amendments to HKFRS 15 *Clarifications to HKFRS 15 Revenue from Contracts with Customers*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together below aspects of the accounting for financial instruments: classification and measurement and impairment.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					HKFRS 9 measurement	
	Notes	Category	Amount	Re-classification	ECL	Other	Amount	Category
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets								
Available-for-sale investments		AFS[1]	1,007,600	(1,007,600)	–	–	–	N/A
To: Financial assets at fair value through profit or loss	(i)			(1,007,600)	–	–		
Financial lease receivables		L&R[2]	21,236	–	–	–	21,236	AC[3]
Trade receivables		L&R	106,190	–	–	–	106,190	AC
Financial assets included in prepayments, other receivables and other assets		L&R	2,321,150	–	–	–	2,321,150	AC
Financial assets at fair value through profit or loss		FVPL[4]	–	1,007,600	–	68,604	1,076,204	FVPL (mandatory)
From: Available-for-sale investments	(i)			1,007,600	–	–		
Pledged and restricted bank deposits		L&R	81,043	–	–	–	81,043	AC
Cash in transit		L&R	37,085	–	–	–	37,085	AC
Cash and bank balances		L&R	1,580,378	–	–	–	1,580,378	AC
Total assets			5,154,682	–	–	68,604	5,223,286	
Financial liabilities								
Trade and bills payables		AC	206,207	–	–	–	206,207	AC
Financial liabilities included in other payables and accruals		AC	138,934	–	–	–	138,934	AC
Bank loans and other borrowings		AC	1,816,336	–	–	–	1,816,336	AC
Total liabilities			2,161,477	–	–	–	2,161,477	

[1] AFS: Available-for-sale investments
[2] L&R: Loans and receivables
[3] AC: Financial assets or financial liabilities at amortised cost
[4] FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has classified its unlisted equity investment, unlisted private fund in the PRC and wealth management product previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these did not pass the contractual cash flow characteristics test in HKFRS 9.

Impairment

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 relating to the provision for impairment are immaterial.

Impact on retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profits *RMB'000*
Retained profits	
Balance as at 31 December 2017 under HKAS 39	2,154,698
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	68,604
Balance as at 1 January 2018 under HKFRS 9	2,223,302

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group recognises revenue from the following major sources:

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Rendering of services

For the rendering of services, the control is transferred overtime and therefore, the performance obligation is satisfied and revenue is recognised over time, if one of the following criteria is met:

(i) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(ii) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(iii) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The adoption of HKFRS 15 does not have any significant impact on the Group's consolidated financial statements.

Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB252,763,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB285,141,000 was classified as contract liabilities in relation to the consideration received from customers in advance for the sale of automobiles and provision of after-sales services.

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

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Revenue from the sale of automobiles and others	**9,353,620**	9,474,086
Provision of after-sales services	**1,279,726**	1,366,325
Revenue from other sources		
Finance leasing services	**6,531**	–
	10,639,877	10,840,411

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	2018
	RMB'000
Type of goods or services	
Sales of automobiles and others	**9,353,620**
Provision of after-sales services	**1,279,726**
Total revenue from contracts with customers	**10,633,346**
Timing of revenue recognition	
Goods received by the customer at a point in time	**9,353,620**
Services rendered at a point in time	**1,279,726**
Total revenue from contracts with customers	**10,633,346**

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of automobiles and others	**224,719**
Provision of after-sales services	**28,044**
	252,763

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of automobiles and others

The performance obligation is satisfied upon receipt of goods by the customer and payment in advance is normally required.

Provision of after-sales services

The performance obligation is satisfied upon the services are rendered and the payment is generally settled when the services are rendered.

(b) Other income and gains, net:

	2018	2017
	RMB'000	*RMB'000*
Commission income	**319,752**	307,339
Advertisement support received from motor vehicle manufacturers	**44,759**	36,317
Bank interest income	**9,582**	22,438
Other interest income from financial assets at fair value through profit or loss	**12,028**	–
Interest income from loans to third parties	**8,836**	8,821
Interest income from loans to an associate	**71,887**	–
Government grants*	**3,551**	729
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
Fair value gains, net:		
Financial asset at fair value through profit or loss	**697,004**	
Loss on disposal of shares in a financial assets at fair value through profit or loss	**(235,603)**	–
Others	**10,220**	42,851
Total	**942,016**	1,321,199

* 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 BEFORE TAX

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

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

	2018	2017
	RMB'000	*RMB'000*
Wages and salaries	**236,328**	307,392
Equity-settled share option expense	**25,957**	7,719
Other welfare	**41,749**	48,297
	304,034	363,408

(b) Cost of sales and services:

	2018	2017
	RMB'000	*RMB'000*
Cost of sales of automobiles *	**9,057,014**	8,908,856
Cost of after-sales services **	**696,174**	791,689
Others	**130,173**	122,021
	9,883,361	9,822,566

* As of 31 December 2018, the impairment provision for inventories amounted to RMB8,513,000 (2017: RMB388,000). The impairment provision for inventories amounted to RMB8,125,000 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 RMB56,033,000 (2017: RMB84,474,000) included in the cost of after-sales services.

(c) Other items:

	2018 *RMB'000*	2017 *RMB'000*
Depreciation of items of property, plant and equipment	**133,769**	232,405
Amortisation of prepaid land lease payments	**400**	400
Amortisation of intangible assets	**4,644**	2,998
Auditor's remuneration	**4,000**	4,000
Loss on disposal of a subsidiary	**–**	1,727
Advertisement and business promotion expenses	**53,517**	48,036
Bank charges	**6,474**	8,069
Minimum lease payments under operating leases	**53,747**	123,674
Loss on disposal of items of property, plant and equipment, net	**16,649**	9,497
Foreign exchange differences, net	**(1,524)**	5,854
Fair value gains, net:		
Financial asset at fair value through profit or loss	**697,004**	–
Loss on disposal of shares in a financial assets at fair value through profit or loss	**(235,603)**	–

6. FINANCE COSTS

	2018 *RMB'000*	2017 *RMB'000*
Interest on bank loans and other loans	**84,913**	69,483
Less: Interest capitalised	**(17,227)**	(6,046)
	67,686	63,437

7. INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**122,813**	203,271
Deferred tax	**4,373**	(1,177)
	127,186	202,094

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 British Virgin Islands ("**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% (2017: 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 (2017: 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

	2018	2017
	RMB'000	*RMB'000*
Proposed final – HK12 cents (2017: HK13 cents) per ordinary share	**156,757**	160,973

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The calculation of the proposed final dividend for the year ended 31 December 2018 is based on the proposed final dividend per ordinary share and the total number of ordinary shares as at the date of approval of these financial statements.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

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

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

Earnings

	2018	2017
	RMB'000	*RMB'000*
Profit for the year attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**683,692**	1,009,356

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,528,665,022**	1,536,113,504
Effect of dilution – weighted average number of ordinary shares:		
– Restricted shares	**–**	2,465,112
– Share options	**15,457,384**	6,676,267
	1,544,122,406	1,545,254,883

10. INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Automobiles	**992,947**	1,146,651
Spare parts and accessories	**131,472**	124,725
	1,124,419	1,271,376

At 31 December 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB596,072,000 (2017: RMB718,430,000) were pledged as security for the Group's bank loans and other borrowings.

At 31 December 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB17,997,000 (2017: RMB78,852,000) were pledged as security for the Group's bills payable.

11. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**123,352**	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 ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**108,282**	90,432
More than 3 months but less than 1 year	**15,070**	15,758
	123,352	106,190

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Impairment under HKAS 39 for the year ended 31 December 2017

An ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017
	RMB'000
Neither past due nor impaired	106,190

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the Directors were of the opinion that no provision for impairment under HKAS39 was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

12. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**99,089**	82,750
Bills payable	**37,228**	123,457
Trade and bills payables	**136,317**	206,207

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**131,304**	200,725
3 to 6 months	**2,097**	2,248
6 to 12 months	**1,308**	1,057
Over 12 months	**1,608**	2,177
	136,317	206,207

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

Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB17,997,000 as at 31 December 2018 (2017: RMB78,852,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In 2018, China's automobile industry recorded a negative growth in sales volume for the first time in the past 20 years. According to China Association of Automobile Manufacturers (中國汽車工業協會), compared with 2017 the sales volume of passenger vehicles in China was 23.71 million units, representing a year-on-year decrease of 4.1%. On the contrary, according to relevant statistics, an upward trend was seen in the sales volume of luxury vehicles in the PRC market in 2018 with a total sales volume of over 2.8 million units. The growth in the luxury vehicle market of China was primarily attributable to consumption upgrade driven by the increasing demand from second- and third-tier cities. Given to the current trend, such second- and third-tier cities that are mainly formed by provincial capitals and sub-provincial cities in the central and western regions have become the main contributors to luxury vehicle consumption.

Despite the decline in overall sales volume of vehicles nationwide, the sales volume of new energy vehicles continued rapid growth in 2018. According to CPCA, the sales volume of new energy passenger vehicles of wholesaler for the year was 1.008 million units, representing a year-on-year increase of 88.5%. The rapid growth in the sales volume of new energy vehicles has become one of the highlights in the automobile market in China in 2018.

Business Overview

Overall Completion of Network Layout and Steady Improvement of Dealership Business

As of the date of this announcement, the Group had a total of 67 dealership outlets covering 33 cities across the country and distributed 14 brands, which include 10 luxury brands, namely, BMW, MINI, Lexus, Jaguar, Land Rover, Volvo, Zinoro, Lincoln, Audi, Alfa Romeo; and 4 ultra-luxury brands, namely, Rolls Royce, Ferrari, Maserati and Bentley;

As of the date of this announcement, the Group engages in a total of 12 authorized dealership outlets under construction or to be constructed. The authorized outlets are mainly luxury and ultra-luxury brands, including BMW, Lincoln, Lexus, Audi, Maserati and Alfa Romeo.

Such 12 outlets under construction and to be constructed are mainly located in the central and western regions in China, i.e. the typically advantageous areas of the Group, and the network covers first-tier and new first-tier cities including Beijing, Wuhan and Ningbo. The strategic layout in the cities located in the central and western regions facilitated the Group in further enhancing and consolidating its position in the market and the layout in new first-tier cities and such cities with great potential for growth is beneficial to the Group to expand market share nationwide, grow brand awareness, and enhance the market penetration rate.

As of 31 December 2018, the Group recorded a sales volume of new vehicles of a total of 26,998 units, representing an increase of 4.2% as compared with 25,917 units in 2017. Sales volume of Lexus brand was 2,962 units, increased by 17.9% when comparing with the same period of 2017.

The Group has established an automobile lease finance company to engage in lease finance business since the second half of 2017 by leveraging the capital strength and the sales network for new vehicles of 4S shops of the Group. We, by adhering to the concept of "car butler service" and the selling points of "good product that saves time and money and without worries", provide customers with direct-lease finance services. The Company has established a stringent risk management mechanism that tracks the credit and repayment record of its customers in real time in order to detect outstanding and bad debts. As of December 31, 2018, the accumulated loans amounted to RMB250.87 million and it is expected to record profit of projects of RMB33.8 million and profit margin of 13.5%.

Comprehensive After-sales Services Business

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, is currently formed in the planning of a three-in-one industry layout of luxury vehicles, new energy vehicles, and car-sharing. As of the date of this announcement, there were a total of 80 services outlets, of which 42 were centre outlets and 38 were community outlets, which are all wholly-owned subsidiaries of the Independent Aftersales Company and operated under the brand of "Harmony Auto Maintenance (和諧修車)", covering 18 provinces across the country, including 33 cities such as Beijing, Shanghai, Shenzhen and Hangzhou.

In regard to the after-sales services of luxury vehicles, Harmony Auto Maintenance adopted a chain operation model of "centre outlets + community outlets". In this model, we provide after-sales services with our integrity and professionalism for the car owners at 80 outlets nationwide, which gained the trust and support from 200,000 car owners. In 2018, the Company actively advanced the progress on informationization and implemented the SASS management system and the launch of service platform for customers, going further to achieve the target to establish a smart after-sales service platform for luxury vehicles in China.

* *For identification purpose only*

In regard to the after-sales services of new energy vehicles, Harmony Auto Maintenance took the initiative to plan an industrial distribution that relies on technological innovation, talents and experiences, cooperated with the new automobile manufacturers and has become one of the market leaders. China's start up electronic vehicles companies are leading the way in innovating auto retail formats to match the consumer trends and expectations. In order to adapt to the new retail trends, we are well prepared to offer after-sales service in the whole life cycle of new energy vehicles. Before that, Harmony Auto Maintenance was authorised by TESLA to be the first batch of partners authorised in the sheet-metal spraying centres in China and was one of the first batch who concentrated on the after-sales services for new energy vehicles. In 2017, Harmony Auto Maintenance has become the after-sales service company that set up the comprehensive cooperation with NIO (蔚來汽車). In the future, Harmony Auto Maintenance will strive to build up a new business eco-system to provide intensive service for the new energy vehicles and brands including providing exclusive working station, sharing technician resources and supports. Currently, we have achieved business cooperation with new energy vehicle brands including NIO, TESLA and Qiantu Motor. Meanwhile, we are approaching various well-known innovative new energy electric vehicle companies, with an aim to become one of the largest and leading after-sales service suppliers for new energy vehicles in China.

In regard to car-sharing services, according to our experiences and market insights, the Internet have redirected the minutiae of daily life including the diversification of our commutes. Car-sharing has become one of main ways to travel. With the rapid development of this trend, the operators need to rely on the independent after-sales service to provide the maintenance and repair service of those vehicles, which will bring us new opportunities for business expansion and great potential for growth. Most of the car-sharing operators used new energy electric vehicle. For automotive maintenance and repair industry, maintenance and repair of electric vehicle constitute a barrier to the traditional vehicle repair company. Harmony Auto Maintenance is the first batch of enterprises to engage in the after-sale service for new energy vehicle, which has rich experience for after-sale service and equipment in terms of maintenance and repair of electric vehicle. This meets the demand of the car-sharing operators. We reached many companies in the industry and achieved business cooperation with companies including Xiaojuchefu (小桔車服) under Didi (滴滴出行), Shouqi Limousine & Chauffeur (首汽約車) and Banma (斑馬智行). Therefore, it becomes the preferred supplier for repair and maintenance at the designated place of sharing vehicle.

Progress of BYTON Manufacturing Projects

BYTON (company name: Future Mobility Corporation), a globally renowned high-end smart intuitive electric vehicle manufacturer of which the Group is one of the shareholders, had closed USD500 million in Series B funding in the second quarter of 2018 from multiple major investors and partners that including FAW Group (一汽集團), Contemporary Amperex Technology (寧德時代) and Tus-Holdings (啟迪控股). BYTON also signed a strategic cooperation framework agreement with FAW Group, the strategic investor, with focus on in-depth cooperation in industrial coordination, technology, investment and procurement supply chain. Meanwhile, BYTON has started its series-C fundraising and is currently discussing with various reputable investors with abundant financial resources. The series-C fundraising is expected to be completed in mid-2019.

The R&D and production of BYTON products were progressing on schedule. After the launch of M-Byte Concept in January 2018, BYTON released K-Byte Concept, the second concept vehicle, in June in the same year, and is now developing the new large luxury MPV. In January 2019, BYTON revealed new details about its first production model, the M-Byte. The production version of the BYTON M-Byte is expected to debut in Mid-2019 with mass-production starting at the end of 2019. The second and third vehicle models are planned to achieve mass production by the end of 2021 and 2022, respectively. Solid progress has been made in the construction of Intelligent Manufacturing Plant in Nanjing. In April 2018, the Prototype Room in the smart manufacturing base in Nanjing plant had been put into operation officially and the first batch of M-Byte prototype vehicles had rolled off the production line and had been put into trial operation. Five major workshops, including stamping, coating, welding, final assembly and battery, had completed construction in January 2019 and in the process of equipment installation and commissioning. This is a vital year for BYTON to achieve the goal of mass production.

The deployment of offline sales service network was comprehensively initiated. In January 2019, BYTON Place, the first experience store of BYTON brand in the world duly commenced business in Shanghai. BYTON will adopt the form combining "direct-sales shops and partnership shops" for active deployment for offline sales service network, and planned to establish 25–30 offline stores during the year. The Group is under discussion with BYTON about distribution rights of the brand stores.

With the release of several BYTON vehicle models, the completion of Intelligent Manufacturing Plant in Nanjing and the mass production of new cars, BYTON is currently negotiating with various parties in terms of sales, after-sales service and delivery of new vehicles.

Sale Services for New Energy Vehicles

In 2018, the Group established Beijing Automobile Zhilian New Energy Automotive Sales Co., Ltd. (北京和諧智聯新能源汽車銷售服務有限公司) in order to adapt to the rapid development of new energy automobile industry. The newly formed company will concentrate on the network development of the authorization and service for new energy vehicle brands across China and focus on the popularization of brands and products as well as expanding the business in sales and service in this new energy vehicle industry.

In order to meet the high standard on customer service experiences required by innovative new energy car enterprises, the company carried out reform on the models and made flexible adjustment on the operation strategy. Models comprise 4S shop model and business experience outlet model, business experience outlet with service center model and comprehensive brand electric vehicle center model, covering from first-tier and second-tier cities to third-tier and fourth-tier cities.

The business model is centered on vehicle sales and continues to extend the new energy vehicle service chain, including deep cooperation with numbers of car-sharing platforms, electric vehicle charging equipment and services, automobile finance insurance, spare parts maintenance, vehicle replacement and key account sales. Under this business model, a sharing platform that covers sale services for new energy vehicles, automobile finance, social function and information disclosure has been established on top of the concept of "Beijing Automobile Zhilian". Everything starts from the actual needs of clients, we focus on customer experience, providing users with cross-brand services and professional advice on new energy vehicles, so as to achieve the best match between manufacturers and users.

Future Outlook and Development Strategy

In the opinion of the Group, despite the slight decline in the overall sales volume of automobiles in China in 2018, the market penetration in local luxury vehicles and ultra-luxury vehicles industry is far from saturation. Along with upgraded consumer spending in the local market, the temporary suspension of US-China trade war and the successive launch of new products of various luxury brands, which will drive the growth in sales volume in the market of luxury and ultra-luxury vehicles.

The favorable national policies that strongly support the development of new energy vehicles should be conducive to the sound environment for the market. The Group expects there will be a continued high growth rate in the new energy vehicles in the future. In the future, the Group will continue to deepen the overall layout of the entire new energy vehicle industry chain, strengthen and explore the related business expansion of manufacturing, sales and after-sales services of new energy vehicles and active synergy effects, continue to develop in new energy vehicle segments and clarify the strategic significance and direction of new energy vehicle business in the development of the Group.

The Group has comprehensively upgraded and completed the business layout of "One Body and Three Wings", and in the future, 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:

- To proactively expand dealership network, increase market penetration, and further enhance sales volume and revenue from new vehicles and the profitability of new outlets.

- As an important participant in the new energy vehicle industry in China, the Group will take the initiative to expand the layout of the relevant industry. Along with the launch of various vehicle model, the completion of the Intelligent Manufacturing Plant in Nanjing, the mass production of new vehicles, the Group will be supported with the dual-drivers of business development and investment income, which continue in-depth collaboration in term of new vehicle sale and after-sales services and achieve synergies between the industry and investment.

- To actively support comprehensive after-sales services, and increase the loyalty and reliance of customers, enhance revenue from after-sales services, and encourage the introduction of more external strategic investors through the interconnection with traditional dealership business and the new business of New Energy automotive sales.

- New energy auto sales company takes the advantage from the traditional experience of the sales and services in the Luxury and ultra-Luxury vehicles, to grasp the opportunities in the market and observe the customers' demands, dedicates to be one of the country's leading enterprises in the full services industry chain of New Energy Vehicle.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB10,639.9 million for 2018, representing a decrease of 1.8% as compared with RMB10,840.4 million in 2017. As the revenue for 2017 included the revenue from comprehensive after-sale services, a non spin-off business, of RMB236.3 million, a slight increase was recorded in 2018 as compared to the adjusted revenue of RMB10,604.1 million for 2017.

Revenue from sales of new vehicles amounted to RMB9,353.6 million, basically remaining at the same level as compared to that of 2017. Revenue from after-sale services amounted to RMB1,279.7 million, accounting for 12.0% to the total revenue and representing an increase of 1.3% as compared to 10.7% in 2017. As the revenue for 2017 included the revenue from comprehensive after-sale services, a non-spin-off business, of RMB236.3 million, an increase of 13.2% was recorded in 2018 as compared to RMB1,130.0 million, net of revenue from the spin-off business, for 2017.

Cost of sales and services

Cost of sales and services of the Group amounted to RMB9,883.4 million in 2018, basically remaining at the same level as compared to that of 2017.

Gross profit

Gross profit of the Group was RMB756.5 million in 2018, representing a decrease of 25.7% as compared to the gross profit of RMB1,017.8 million for 2017. The decrease in gross profit was mainly attributable to the relatively large amount of newly-opened shops in 2018 with relatively low gross profit, together with the impact from the decline in gross profit of new vehicles as a result of the macro-economic policies implemented in 2018. Along with the more favorable international trade environment and the national policies' focus on the automobile industry, the gross profit of new vehicles is expected to rebound. Meanwhile, the shops newly opened in 2018 will contribute more profit to the Group in the coming one to three years.

Selling expenses

In 2018, selling expenses of the Group amounted to RMB549.1 million, representing a decrease of 30.3% from RMB787.5 million in 2017. Due to the inclusion of comprehensive after-sale services, a growth of 9.7%, net of expense from the spin-off business, was recorded in 2018 as compared to 2017. The growth was mainly attributable to the large amount of newly-opened shops in 2018 with relatively high initial operating cost. The Group has attached greater importance to marketing and promotion to increase customer's loyalty and made more investment for marketing purpose.

Administrative expenses

As compared to RMB147.0 million in 2017, administrative expenses of the Group increased by RMB8.2 million, or 5.6%, to RMB155.2 million in 2018, mainly due to the increase of administrative expenses in the newly-opened 4S shops.

Other income and gains, net

Other income and gains, net decreased from RMB1,321.2 million in the corresponding period of 2017 to RMB942.0 million in 2018, of which other income and gains, net, of principal businesses recorded a slight increase as compared to that of 2017. The decrease was mainly due to the relatively high incremental gains in valuation of FMC investment projects in 2017 and the decline in the incremental gains in valuation of such investment projects in 2018.

Finance costs

The Group's finance costs for 2018 was RMB67.7 million, representing an increase of RMB4.3 million as compared to RMB63.4 million in 2017, primarily due to the increase of new shops in operation and bank loans of the Group in 2018.

Profit from operations

Based on the above, the Group's profit from operations for 2018 was RMB994.3 million as compared to RMB1,404.5 million in 2017.

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 2018 was approximately RMB683.7 million, while there was profit of RMB1,009.4 million recorded for the corresponding period of 2017. The decrease was mainly due to the gross profit of new vehicles and the decline in the valuation gains in FMC investment projects.

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 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, 2018, cash and deposits of the Group totaled RMB1,259.2 million.

In 2018, our net cash from operating activities was RMB264.0 million, net cash used in investing activities was RMB821.0 million, which was mainly due to the increase in self-operated dealership outlets in 2018 and the relatively substantial amount in newly-opened shops and the capital expenditure for shops under construction, and net cash from financing activities was RMB31.2 million.

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

Net current assets

As at December 31, 2018, the Group had net current assets of RMB474.8 million as compared to RMB2,076.3 million as at December 31, 2017, which was mainly due to the spin-off of comprehensive after-sale business and the spin-off of assets by the end of 2017.

Capital expenditure

In 2018, the Group's capital expenditure was RMB668.9 million (2017: RMB313.9 million), which was primarily used for the expenditure and prepayment for purchase of items of property, plant and equipment in connection with the establishment of new outlets.

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Inventories decreased by RMB147.0 million from RMB1,271.4 million as at 31 December 2017 to RMB1,124.4 million as at 31 December 2018. The decrease in the inventories of new vehicles of the Group is because each of the Group's outlets has reinforced their management in their respective orders for new passenger vehicles and after-sales products. Meanwhile, the headquarters of the Group implements active warning, supervision and management on inventories of all stores, and adjusts the allocation of resources on each dealership shop to ensure a reasonable inventory balance.

The Group's average inventory turnover days for 2018 were 44 days.

Bank loans and other borrowings

As at December 31, 2018, the Group had bank loans and other borrowings in the aggregate amount of RMB2,137.6 million, representing a year-on-year increase of 17.7% as compared to RMB1,816.3 million as at December 31, 2017. The additional loans were mainly used for the construction works and payment for equipment for newly-opened shops.

	December 31, 2018	December 31, 2017
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year	**1,281,883**	732,800
Within the second year	**–**	15,980
	1,281,883	748,780
Other borrowings repayable:		
Within one year	**855,721**	1,067,556
Total	**2,137,604**	1,816,336

As at December 31, 2018, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 37.2%, remaining at the same level as compared with that of December 31, 2017.

As at December 31, 2018, 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, 2018, consisted of (i) inventories in the amount of RMB596.1 million; (ii) property, plant and equipment in the amount of RMB23.2 million; and (iii) prepaid land lease payments in the amount of RMB11.1 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.

Contingent liabilities

As at December 31, 2018, 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 does not currently use any derivative instruments to manage its interest rate risk.

Substantially all of the Group's revenue, cost of revenue and expenses are denominated in Renminbi. The Group also 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, 2018, the Group had a total of 3,693 employees (December 31, 2017: 3,303 employees). The change in number of employees was due to increase in number of new stores. Relevant staff cost for 2018 was approximately RMB304.0 million (including employee share incentive of RMB26.0 million), while the staff cost was approximately RMB363.4 million for 2017 (including employee share incentive of RMB7.7 million).

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, 2018, the Company had 81,791,000 share options outstanding under the share option scheme, which represented approximately 5.36% of the Company's share in issue as at that date.

For further details of the share option scheme, please refer to the Company's annual report for 2018 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

During the year ended December 31, 2018, the Company repurchased a total of 12,270,500 of ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$46,937,375.00 (excluding transaction cost). The 12,270,500 repurchased shares were subsequently cancelled on August 15, 2018 and November 6, 2018 respectively. 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 (excluding transaction cost)
April 2018	5,200,000	4.96	4.60	24,686,075.00
September 2018	3,025,500	3.28	2.97	9,486,665.00
October 2018	4,045,000	3.39	2.95	12,764,635.00
Total	12,270,500			46,937,375.00

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 for the year ended December 31, 2018.

EVENTS AFTER THE REPORTING PERIOD

From 21 February 2019 to 28 February 2019, the Company has repurchased 5,852,500 shares. Save for the above, there is no other event affecting the Group which have occurred after the Reporting Period to the date of this announcement.

FINAL DIVIDEND

The Board proposed a final dividend of HK12 cents for each ordinary share for the year ended December 31, 2018. 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, 2019 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, 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, the then chairman of the audit committee were not able to attend the annual general meeting of the Company held on June 13, 2018 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, 2018.

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, 2018 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. Wang Nengguang, Mr. Liu Zhangmin and Mr. Xue Guoping, all of whom are independent non-executive directors of the Company. Mr. Wang Nengguang is the chairman of the Audit Committee.

The Audit Committee has reviewed the annual results for the year ended December 31, 2018.

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 29, 2019

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. Wang Nengguang, Mr. Liu Zhangmin and Mr. Xue Guoping.