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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)

**DISCLOSEABLE TRANSACTIONS – (1) INTRODUCTION OF
STRATEGIC INVESTORS TO SUBSIDIARY; (2) DEEMED
DISPOSAL OF 50.72% INTEREST IN SUBSIDIARY AND LOAN
CAPITALISATION**

**INTRODUCTION OF STRATEGIC INVESTORS TO SUBSIDIARY,
DEEMED DISPOSAL OF 50.72% INTEREST IN SUBSIDIARY AND LOAN
CAPITALISATION**

The Board is pleased to announce that on 29 June 2017 (after trading hours), Hexie Automobile Trading (an indirect wholly-owned subsidiary of the Company), the Independent Aftersales Company (an indirect wholly-owned subsidiary of the Company), each of the Aftersales Management Entities and each of the Strategic Investors have entered into the Capital Increase Agreement.

Pursuant to the Capital Increase Agreement:

- The Aftersales Management Entities agreed to contribute RMB70 million (including RMB40 million by the Aftersales ESOP 1 and RMB30 million by the Aftersales ESOP 2) to the Independent Aftersales Company to subscribe for increased registered capital of RMB70 million of the Independent Aftersales Company.
- Leaguer Auto agreed to contribute RMB105 million to the Independent Aftersales Company to subscribe for increased registered capital of RMB35 million of the Independent Aftersales Company.

- Aotuo Investment agreed to contribute RMB105 million to the Independent Aftersales Company to subscribe for increased registered capital of RMB35 million of the Independent Aftersales Company.
- Hexie Automobile Trading agreed to capitalise RMB320 million of the Shareholder's Loan to subscribe for increased registered capital of RMB116 million of the Independent Aftersales Company.

The current registered capital of the Independent Aftersales Company is RMB20 million. As a result of the Capital Increase and Loan Capitalisation, the registered capital of the Independent Aftersales Company will increase to RMB276 million and Hexie Automobile Trading, the Aftersales Management Entities, Leaguer Auto and Aotuo Investment will hold 49.28%, 25.36%, 12.68% and 12.68%, respectively, of the equity interest in the Independent Aftersales Company.

The balance of RMB210 million of the Shareholder's Loan will continue to be provided by Hexie Automobile Trading to the Independent Aftersales Company as Remaining Loan pursuant to the Capital Increase Agreement.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Independent Aftersales Company is mainly engaged in independent automobile aftersales services. The Company is optimistic about the independent automobile aftersales services sector. However, the Independent Aftersales Company is still at the initial development stage and will continue to incur a lot of upfront costs due to network expansion.

In order to balance short-term and long-term interests of shareholders of the Company and improve our financial performance, the Directors have decided to implement the Transactions. After the Transactions are completed, the Company will still be an important investor in the Independent Aftersales Company, which will seek for independent listing in the future. The Directors believe that the Company will continue to benefit from value appreciation of the Independent Aftersales Company.

The Directors (including the independent non-executive Directors) believe that the terms of the Capital Increase Agreement are fair and reasonable and on normal commercial terms and the entering into the Capital Increase Agreement and the Transactions contemplated thereunder are in the interests of the Company's shareholders as a whole.

It is expected that the Group will record an investment gain of no less than RMB 150 million (the specific amount shall be subject to the disclosure in the interim report and annual report of the Company) due to the Capital Increase and the Loan Capitalisation of the Independent Aftersales Company.

LISTING RULES IMPLICATIONS

Due to the Capital Increase, the equity interest held by Hexie Automobile Trading in the Independent Aftersales Company will be diluted from 100% to 49.28%. As such, the Capital Increase will be deemed as a disposal of the Group's interest in the Independent Aftersales Company under Rule 14.29 of the Listing Rules.

As one or more of the relevant percentage ratios (as defined under the Listing Rules) of the Transactions contemplated under the Capital Increase Agreement exceed 5% but are all less than 25%, the Transactions constitute discloseable transactions of the Company and are subject to the reporting and announcement but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

INTRODUCTION OF STRATEGIC INVESTORS TO SUBSIDIARY, DEEMED DISPOSAL OF 50.72% INTEREST IN SUBSIDIARY AND LOAN CAPITALISATION

The Board is pleased to announce that on 29 June 2017 (after trading hours), Hexie Automobile Trading (an indirect wholly-owned subsidiary of the Company), the Independent Aftersales Company (an indirect wholly-owned subsidiary of the Company), each of the Aftersales Management Entities and each of the Strategic Investors have entered into the Capital Increase Agreement.

Major terms of the Capital Increase Agreement are set out below.

Date:

29 June 2017

Parties:

- (1) the Independent Aftersales Company;
- (2) Hexie Automobile Trading;
- (3) the Aftersales Management Company (together with the Aftersales ESOP 1 and the Aftersales ESOP 2, the "**Aftersales Management Entities**");
- (4) the Aftersales ESOP 1;

- (5) the Aftersales ESOP 2;
- (6) Leaguer Auto; and
- (7) Aotuo Investment.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Aftersales Management Company is owned as to 28% by Mr. Yang Lei (an executive Director of the Company) and the rest of the shareholding of the Aftersales Management Company is owned by other employees of the Independent Aftersales Company, none of whom control 30% or more of the Aftersales Management Company. The Aftersales Management Company is the general partner of the Aftersales ESOP 1 and the Aftersales ESOP 2. The Aftersales ESOP 1 and the Aftersales ESOP 2 are owned by certain members of senior management and employees of the Independent Aftersales Company, none of them control 30% or more of the Aftersales ESOP 1 or the Aftersales ESOP 2. Accordingly, none of Aftersales Management Entities is a connected person of the Company under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Strategic Investors and their respective ultimate shareholders are third parties independent of the Company and its connected persons.

Subject matter

Pursuant to the Capital Increase Agreement:

- The Aftersales Management Entities agreed to contribute RMB70 million (including RMB40 million by the Aftersales ESOP 1 and RMB30 million by the Aftersales ESOP 2) to the Independent Aftersales Company to subscribe for increased registered capital of RMB70 million of the Independent Aftersales Company.
- Leaguer Auto agreed to contribute RMB105 million to the Independent Aftersales Company to subscribe for increased registered capital of RMB35 million of the Independent Aftersales Company.
- Aotuo Investment agreed to contribute RMB105 million to the Independent Aftersales Company to subscribe for increased registered capital of RMB35 million of the Independent Aftersales Company.
- Hexie Automobile Trading agreed to capitalise RMB320 million of the Shareholder's Loan to subscribe for increased registered capital of RMB116 million of the Independent Aftersales Company.

The equity holding structure of the Independent Aftersales Company before and after the Transactions are completed is set out as follows (all premiums will be accounted as the capital reserve fund of the Independent Aftersales Company):

	Before the Transactions		After the Transactions	
	Registered capital <i>(in RMB)</i>	Percentage <i>(%)</i>	Registered capital <i>(in RMB)</i>	Percentage <i>(%)</i>
Hexie Automobile Trading	20,000,000	100	136,000,000	49.28
Aftersales ESOP 1	0	0	40,000,000	14.49
Aftersales ESOP 2	0	0	30,000,000	10.87
Leaguer Auto	0	0	35,000,000	12.68
Aotuo Investment	0	0	35,000,000	12.68
Total	20,000,000	100	276,000,000	100

Consideration

Pursuant to the Capital Increase Agreement, Hexie Automobile Trading has agreed to subscribe for registered capital of RMB116 million in the Independent Aftersales Company by capitalising RMB320 million of the Shareholder’s Loan, out of which RMB116 million and RMB204 million shall be accounted as registered capital and capital reserve fund of the Independent Aftersales Company, respectively.

The consideration was determined with reference to the balance of the Shareholder’s Loan and valuation of the Independent Aftersales Company agreed by the Strategic Investors. Aftersales ESOP 1 and Aftersales ESOP 2 subscribed for registered capital at par to recognize prior contribution of senior management and employees of the Independent Aftersales Company and to properly incentivize them to focus on the development of the Independent Aftersales Company.

Payment terms

Pursuant to the Capital Increase Agreement, the Capital Increase shall be conducted according to the following schedule:

Capital Increase by Aftersales ESOP 1 and Aftersales ESOP 2

Within 30 days of the date of the Capital Increase Agreement, Aftersales ESOP 1 and Aftersales ESOP 2 shall in aggregate contribute RMB51 million to the Independent Aftersales Company in cash to subscribe for increased registered capital of RMB51 million of the Independent Aftersales Company (the “**ESOP First Contribution**”).

On or before the day of the Strategic Investor Contribution, Aftersales ESOP 1 and Aftersales ESOP 2 shall in aggregate further contribute RMB19 million to the Independent Aftersales Company in cash to further subscribe for increased registered capital of RMB19 million of the Independent Aftersales Company.

Loan Capitalisation by Hexie Automobile Trading

On the day of the ESOP First Contribution, Hexie Automobile Trading shall capitalise RMB29 million of the Shareholder's Loan provided to the Independent Aftersales Company to subscribe for increased registered capital of RMB29 million of the Independent Aftersales Company.

On or before the day of the Strategic Investor Contribution, Hexie Automobile Trading shall further capitalise RMB291 million of the Shareholder's Loan provided to the Independent Aftersales Company, of which RMB87 million is accounted as the increased registered capital of the Independent Aftersales Company and RMB204 million is accounted as capital reserve of the Independent Aftersales Company.

Capital Increase by the Strategic Investors

Within one month of the Condition Satisfaction Day, Leaguer Auto and Aotuo Investment (or related party/third party respectively designated by them) shall contribute RMB105 million and RMB105 million, respectively, to the Independent Aftersales Company to subscribe for increased registered capital of RMB35 million and RMB35 million, respectively, of the Independent Aftersales Company (the "**Strategic Investor Contribution**"). RMB140 million of the Strategic Investor Contribution will be accounted as capital reserve of the Independent Aftersales Company.

Provision of the Remaining Loan

Over the years, Hexie Automobile Trading and its subsidiaries have advanced certain loans to the Independent Aftersales Company, the amount of which as at 31 May 2017 was approximately RMB530 million (the final amount shall be subject to the Condition Satisfaction Day). Pursuant to the Capital Increase Agreement, RMB320 million of the Shareholder's Loan will be capitalised as equity of the Independent Aftersales Company under this transaction and the remaining RMB210 million (the "**Remaining Loan**") (the final amount shall be subject to the Condition Satisfaction Day) will continue to be provided by Hexie Automobile Trading to the Independent Aftersales Company pursuant to the Capital Increase Agreement, or at Hexie Automobile Trading's election, it may also be capitalised prior to the next round of fund raising of the Independent Aftersales Company at a price not higher than the price for the Strategic Investors in this round of fund raising.

Conditions Precedent

The Transactions contemplated under the Capital Increase Agreement are conditional upon the satisfaction (or waiver by all the Strategic Investors in writing) of, among other things, the following:

- (1) the representations, warranties and undertakings of the Independent Aftersales Company as set out in the Capital Increase Agreement remaining true and accurate as at the Condition Satisfaction Day;
- (2) the shareholder's resolutions and directors' resolutions of the Independent Aftersales Company to approve the transactions contemplated under the Capital Increase Agreement having been passed and provided to the parties to the Capital Increase Agreement;
- (3) bring-down due diligence of the Independent Aftersales Company and its business having been completed by each of the Strategic Investors and the result of which is reasonably satisfactory to each of the Strategic Investors;
- (4) each of the core management and other employees identified by the Strategic Investors having entered into service agreement and non-compete agreement with the Independent Aftersales Company;
- (5) the Independent Aftersales Company having provided the employee stock option plan of the Independent Aftersales Company which is to the satisfaction of the Strategic Investors;
- (6) there having been no legal restriction or governmental orders restricting the Capital Increase; and
- (7) there having been no circumstances which would give rise to a material adverse event on the Independent Aftersales Company or its core business.

Capital Increase Completion

The Capital Increase Completion shall occur on the day when the full amount of capital to be paid pursuant to the Capital Increase has been received by the bank account of the Independent Aftersales Company.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Independent Aftersales Company is mainly engaged in independent automobile aftersales services. The Company is optimistic about the independent automobile aftersales services sector. However, the Independent Aftersales Company is still at the initial development stage and will continue to incur a lot of upfront costs due to network expansion.

In order to balance short-term and long-term interests of shareholders of the Company and improve our financial performance, the Directors have decided to implement the Transactions. After the Transactions are completed, the Company will still be an important investor in the Independent Aftersales Company. The Directors believe that the Company will continue to benefit from value appreciation of the Independent Aftersales Company.

The Directors (including the independent non-executive Directors) believe that the terms of the Capital Increase Agreement are fair and reasonable and on normal commercial terms and the entering into the Capital Increase Agreement and the transactions contemplated thereunder are in the interests of the Company's shareholders as a whole.

INFORMATION OF THE PARTIES

Hexie Automobile Trading and the Group

Hexie Automobile Trading, an indirect wholly-owned subsidiary of the Company, is a limited liability company incorporated in the PRC and is principally engaged in automobile sales, services, investment and holding.

The Group is principally engaged in the sales of luxury and ultra-luxury passenger vehicles in the PRC and related customer services including aftersales services, financing and insurance agency, as well as development of new energy vehicles.

Aftersales Management Company, Aftersales ESOP 1 and Aftersales ESOP 2

The Aftersales Management Company is owned as 28% by Mr. Yang Lei (an executive Director of the Company) and the rest of the shareholding of Aftersales Management Company is owned by other employees of the Independent Aftersales Company, none of whom control 30% or more of the Aftersales Management Company. The Aftersales Management Company is the general partner of the Aftersales ESOP 1 and the Aftersales ESOP 2, which are partnerships established under the laws of the PRC and are principally engaged in investment and holding. The Aftersales ESOP 1 and the Aftersales ESOP 2 are owned by certain members of senior management and employees of the Independent Aftersales Company.

Leaguer Auto

Leaguer Auto is a limited liability company incorporated in the PRC and is principally engaged in investment in automobile industry. Leaguer Auto is wholly owned by Shenzhen Leaguer Capital Investment Management Company Limited* (深圳力合資本投資管理有限公司).

Aotuo Investment

Aotuo Investment is a partnership established under the laws of PRC and is principally engaged in investment and holding. Aotuo Investment is managed by Zhuhai Aodong Investment Company Limited* (珠海奧動投資有限公司).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Strategic Investors and their respective ultimate shareholders are third parties independent of the Company and its connected persons.

INFORMATION OF THE INDEPENDENT AFTERSALES COMPANY

The Independent Aftersales Company is a limited liability company incorporated in the PRC as at the date of this announcement and is principally engaged in independent automobile aftersales services.

Based on the unaudited financial statements of the Independent Aftersales Company, the consolidated net liability of the Independent Aftersales Company and its subsidiaries as at December 31, 2016 was approximately RMB41 million.

FINANCIAL EFFECTS OF THE TRANSACTIONS

Due to the Capital Increase and the Loan Capitalisation, the Independent Aftersales Company will cease to be a subsidiary of the Company and its results will no longer be consolidated into the Group's financial results.

It is expected that the Group will record an investment gain of no less than RMB150 million (the specific amount shall be subject to the disclosure in the interim report and annual report of the Company) due to the Capital Increase and the Loan Capitalisation of the Independent Aftersales Company. There will be no disposal proceeds resulting from the transactions contemplated under the Capital Increase Agreement.

LISTING RULES IMPLICATIONS

Due to the Capital Increase, the equity interest held by Hexie Automobile Trading in the Independent Aftersales Company will be diluted from 100% to 49.28%. As such, the Capital Increase will be deemed as a disposal of the Group's interest in the Independent Aftersales Company under Rule 14.29 of the Listing Rules.

As one or more of the relevant percentage ratios (as defined under the Listing Rules) of the Transactions contemplated under the Capital Increase Agreement exceed 5% but are all less than 25%, the Transactions constitute discloseable transactions of the Company and are subject to the reporting and announcement but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

PROPOSED RESIGNATION OF EXECUTIVE DIRECTOR

Mr. Yang Lei has indicated to the Company that he wishes to resign as an executive Director and a member of the Remuneration Committee as he wishes to focus on the business of the Independent Aftersales Company. A further announcement will be made by the Company in accordance with the Listing Rules when the resignation takes effect.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

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| “Aftersales ESOP 1” | Tibet Hejinhui Venture Capital Partnership (Limited Partnership)* (西藏和進匯創業投資合夥企業 (有限合夥)), a limited partnership to be established under the laws of PRC, the general partner of which is the Aftersales Management Company and the limited partners of which are certain members of senior management and employees of the Independent Aftersales Company |
| “Aftersales ESOP 2” | Tibet Lancherui Venture Capital Partnership (Limited Partnership)* (西藏藍徹瑞創業投資合夥企業 (有限合夥)), a limited partnership to be established under the laws of PRC, the general partner of which is the Aftersales Management Company and the limited partners of which are certain members of senior management and employees of the Independent Aftersales Company |

“Aftersales Management Company”	Tibet Hejinhui Venture Capital Management Co., Ltd.* (西藏和進匯創業投資管理有限公司), which is owned as to 28% by Mr. Yang Lei and the rest of the shareholding is owned by other employees of the Independent Aftersales Company, none of whom control 30% or more of the Aftersales Management Company
“Aotuo Investment”	Zhuhai Aotuo Investment Centre Partnership (Limited Partnership)* (珠海奧拓投資中心合夥企業(有限合夥))
“Board”	the board of Directors of the Company
“Capital Increase”	the capital increase of the Independent Aftersales Company as contemplated under the Capital Increase Agreement
“Capital Increase Agreement”	the capital increase agreement dated 29 June 2017 entered into between the Independent Aftersales Company, Hexie Automobile Trading, Aftersales Management Company, Aftersales ESOP 1, Aftersales ESOP 2, Leaguer Auto and Aotuo Investment
“Capital Increase Completion”	the completion of the Capital Increase
“Company”	China Harmony New Energy Auto Holding Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Condition Satisfaction Day”	the day when all the conditions precedent to the Capital Increase as set out in the Capital Increase Agreement have been satisfied (or waived by all the Strategic Investors in writing) (as the case may be)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“ESOP First Contribution”	has the meaning ascribed to it under the heading “Capital Increase by Aftersales ESOP 1 and Aftersales ESOP 2” of this announcement
“Group”	the Company and its subsidiaries

“Hexie Automobile Trading	Henan Hexie Automobile Trading Co., Ltd.* (河南和諧汽車貿易有限公司), an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Aftersales Company”	Henan Hexie Automobile Aftersales Services Co., Ltd.* (河南和諧汽車維修服務有限公司), an indirect wholly-owned subsidiary of the Company as at the date of this announcement and its subsidiaries, branches and representative offices
“Leaguer Auto”	Shenzhen Leaguer Automobile Co., Ltd* (深圳力合汽車有限公司)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Capitalisation”	the capitalisation of RMB320 million of the Shareholder’s Loan by Hexie Automobile Trading pursuant to the Capital Increase Agreement for RMB116,000,000 registered capital of the Independent Aftersales Company
“PRC” or “China”	the People’s Republic of China which, for the purposes of this announcement, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Remaining Loan”	the remaining loan in the amount of RMB210 million (the final amount shall be subject to the Condition Satisfaction Day) provided by Hexie Automobile Trading and its subsidiaries to Independent Aftersales Company as of 31 May 2017
“Remuneration Committee”	the remuneration committee of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)

“Shareholder’s Loan”	a shareholder’s loan of approximately RMB530 million (the final amount shall be subject to the Condition Satisfaction Day) provided by Hexie Automobile Trading and its subsidiaries to the Independent Aftersales Company as of 31 May 2017
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Investor Contribution”	has the meaning ascribed to it under the heading “Capital Increase by the Strategic Investors” of this announcement
“Strategic Investors”	Leaguer Auto and Aotuo Investment
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Transactions”	the Capital Increase and the Loan Capitalisation

By Order of the Board
China Harmony New Energy Auto Holding Limited
Feng Changge
Chairman and Executive Director

Zhengzhou, the PRC
29 June 2017

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

* *For identification purposes only*