中國和諧汽車控股有限公司

China Harmony Auto Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 3836

Interim Report 2014

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Corporate Information

Board of Directors

Executive Directors

Mr. Feng Changge *(Chairman)*
Mr. Yu Feng
Mr. Yang Lei
Mr. Cui Ke
Ms. Ma Lintao
Mr. Fong Heung Sang, Addy (Dexter)
(resigned with effect from June 16, 2014)

Non-executive Director

Mr. Wang Nengguang

Independent Non-executive Directors

Mr. Xiao Changnian
Mr. Liu Zhangmin
Mr. Xue Guoping
Mr. Li Daomin (retired on June 25, 2014)

Audit Committee

Mr. Xiao Changnian *(Chairman)*
Mr. Liu Zhangmin
Mr. Xue Guoping

Remuneration Committee

Mr. Xue Guoping *(Chairman)*
Mr. Liu Zhangmin
Mr. Yang Lei

Nomination Committee

Mr. Feng Changge *(Chairman)*
Mr. Xue Guoping
Mr. Xiao Changnian (appointed with effect from June 25, 2014)
Mr. Li Daomin (resigned with effect from June 25, 2014)

Company Secretary

Ms. Wong Wai Yee, Ella

Authorized Representatives

Mr. Yang Lei
Ms. Wong Wai Yee, Ella

Auditors

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Principal Banks

China CITIC Bank, Zhengzhou Branch
Shanghai Pudong Development Bank, Zhengzhou Branch
China Merchants Bank, Zhengzhou Branch
The Bank of East Asia, Zhengzhou Branch
Bank of Communications, Zhengzhou Branch

Registered Office

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business and Headquarter in the PRC

15A, Building A, Shangwuneihuan Road
CBD Zhengdongxin District
Zhengzhou, Henan Province
PRC

Corporate Information

Principal Place of Business in Hong Kong

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Cayman Islands Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Share Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Compliance Adviser

REORIENT Financial Markets Limited
11/F, Far East Finance Centre
16 Harcourt Road, Admiralty
Hong Kong

Company's website

www.hexieauto.com

Stock Code

3836

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of China Harmony Auto Holding Limited ("**China Harmony Auto**" or the "**Company**" or "**we**"), I am pleased to present the report for the results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the first half of 2014.

THE COMPANY MADE REMARKABLE ACHIEVEMENTS IN THE FIRST HALF OF 2014

In the first half of 2014, our 4S outlets' brand influence and sales network were further expanded and are steadily growing; and our comprehensive after-sales services business was proactively expanded and are rapidly growing. Our revenue, profit and other financial indicators experienced rapid growth in the first half of 2014, which was primarily attributable to our distinctive network expansion and development strategies that stress on the exclusive sales of luxury and ultra-luxury passenger vehicles in 4S outlets, the sales of luxury passenger vehicles in the central-western regions to establish our dominant and leading position in certain such regions which ensures our profits and quality, the sales of ultra-luxury passenger vehicles in the first-tier cities and eastern economically developed coastal regions to establish our dominant and leading position in such regions, as well as the opening of outlets in the prime locations of the core cities. Given that the comprehensive after-sales services business requires less investment and has a short period of construction, we continued to focus exclusively on the brands of luxury and ultra-luxury automobiles and were capable of tapping into the maturing luxury and ultra-luxury automobile services market to build the Company's own brands in the field of car maintenance. Upholding the principles of "Profit and Quality First" without being solely focused on expansion, the Company strived to maximise the return to our shareholders.

RAPID GROWTH IN OUR OPERATING RESULTS

In the first half of 2014, China Harmony Auto continued to enhance its operating capability and therefore realized revenue of RMB5,004 million, representing a year-on-year increase of 36.8%, of which our revenue from the sales of new passenger vehicles was approximately RMB4,439 million, up by 32.7%, and our revenue from after-sales services amounted to approximately RMB565 million, up by 79.7%. In the first half of 2014, the Company sold 9,940 new passenger vehicles, representing a year-on-year increase of 41.1%, which was much higher than the growth rate of 26% in China luxury vehicle market. We achieved a growth of 10.7% in our net profit and a strong growth of up to 43.4% in our adjusted net profit, thereby delivering satisfactory results to our shareholders.

CONTINUED EXPANSION IN OUR SALES NETWORK AND CONTINUED EXPANSION IN OUR BRAND PORTFOLIO

In the first half of 2014, the number of our 4S outlets operating luxury and ultra-luxury vehicle brands increased by 6 to 40. In the first half of 2014, with the new authorization from Infiniti, the number of brands of luxury and ultra-luxury passenger vehicles distributed by the Company increased from 12 previously to 13, namely Rolls-Royce, Aston Martin, Ferrari, Maserati, BMW, Land Rover, Jaguar, Lexus, MINI, Audi, Volvo, Infiniti, and Lincoln.

OUR FUTURE DEVELOPMENT

Steady development strategy of 4S outlets for luxury and ultra-luxury passenger vehicles

The Company believes that with huge potential for growth, China's passenger vehicle market will maintain a substantial long-term steady growth in the future. As one of the leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China, the Company is committed to fully exert its leading role and maintain a steady expansion of its sales network.

Meanwhile, after-sales services of maturing 4S outlets have become one of the most important drivers of our operation and our profit growth, in particular with the 24 new 4S outlets opened from 2012 to 2013 becoming increasingly matured and the customer base continuing to expand which resulted in strong growth of revenue from after-sales services of our 4S outlets. The Company also benefited from its exclusive focus on luxury and ultra-luxury passenger vehicles, as the owners of luxury and ultra-luxury passenger vehicles were desirous of more professional services and paid more attention to the quality of after-sales services.

The business growth of the Company was mainly the result of the organic growth of its own businesses. We have always attached high importance to the development of insurance and finance businesses. In the first half of 2014, insurance and finance businesses contributed to a rapid growth for our commission income. We highly value the development of our automobile after-markets business. The Group has specially established its after-markets business department and intensified its business development of competitive products, accessories, car retrofitting and car tuning. Meanwhile, we acquired Shanghai Goocar Pre-owned Automobile Co., Ltd. (上海谷卡二手車有限公司) and endeavored to develop our second-hand vehicle business. Currently, we are negotiating with a renowned domestic internet company to promote strategic cooperation in building an online and offline platform for our second-hand vehicle business.

Aggressive development strategy of comprehensive repair and maintenance services for luxury and ultra-luxury passenger vehicles

In the past decade, China's high-end automobile market maintained a sustained growth and its luxury and ultra-luxury automobiles market achieved a steady growth, making it the second largest high-end automobile market in the world, only behind the U.S. From a long-term perspective, with the continuous growth in the sales of new vehicles and the number of vehicles in use in China, the after-sales market will inevitably become the "golden niche" in the PRC automobile industry, which is highly lucrative and sustainable. Comprehensive after-sales business is an innovative business firstly launched by the Group in 2013. It is an innovation reform of after-sales maintenance service in the PRC and in line with the development trend of the PRC automobile market, which has strong competitiveness in the automobile after-sales services market. With reference to the internationally accepted practice and through practical operation, the Company has established its own operation model of Harmony comprehensive after-sales and has built its famous brand of Harmony car maintenance. Looking into the future, our fast-growing comprehensive after-sales outlets, which are in operation or will be in operation, will make greater contribution to the growth of our revenue from after-sales services, which in return will generate stable cash flows and considerable profits for us;

Chairman's Statement

Proactive development strategy for new energy vehicle business

New energy vehicle business will be the direction of the global automobile development and is also the reform of the traditional automobile industry, and this reform has come. The Group has seized this opportunity to proactively develop its new energy vehicle business. The Group has cooperated with a renowned electric vehicle company in America in the field of after-sales services. Up to now, the Group's cooperative outlets in Beijing, Shanghai, Hangzhou, etc. have been under operation, whereas the construction of those cooperative outlets in other cities are also in progress and will be successively put into operation. Meanwhile, the Group has initiatively signed cooperation agreement with BMW Brilliance in respect of "Zinoro" electric vehicles to cooperate in marketing, leasing, after-sales services and other aspects. In addition, the Group has also initiatively signed cooperation agreement with BMW China in respect of "i" series electric vehicles to cooperate in marketing, spare parts, information, after-sales services etc.;

Innovative development strategy for high value-added business

The Group is committed to the development of its luxury and ultra-luxury automobiles businesses and has accumulated numerous high-end customer resources in the past decade. We have fully consolidated and capitalized these high-end customer resources to innovatively develop high value-added businesses. For instance, we are conducting business negotiations with some high-end smartphone companies. We will use our existing luxury and ultra-luxury automobile showroom and platform to provide our high-end customers with customized high-tech products and services. Meanwhile, we are also conducting business negotiations with producers of famous wrist watch brands in Switzerland and of famous luxury brands in France and Italy. The expansion of these innovative high value-added businesses will become a growth point of our new businesses and profits;

Innovative internet marketing strategy

The development of internet will reach into every aspect of people's life. Currently, we are proactively promoting our operating activities on the internet. In addition, we are also conducting business negotiations with two famous internet companies in China to carry out strategic cooperation in the fields of new vehicles, second-hand vehicles, accessories, quality products, after-sales services and others and build our online and offline operation platform.

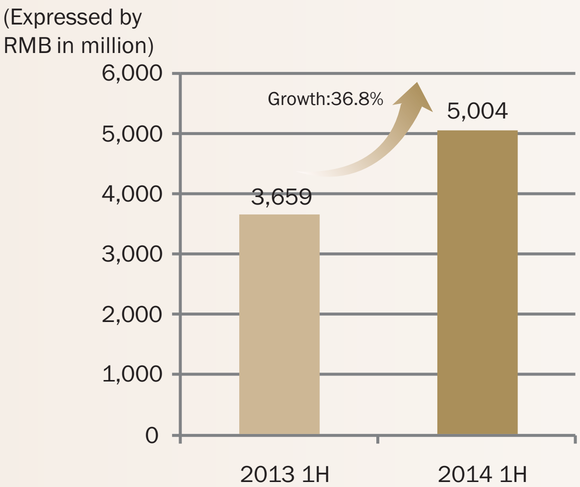
The Company delivered remarkable results in the first half of 2014, which was attributable to the continuing effort of all our staff, as well as the strong support of all our shareholders and business partners. On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all of them. With constant effort and desire for excellence, we will deliver fruitful results and remarkable return to our shareholders.

Feng Changge
Chairman

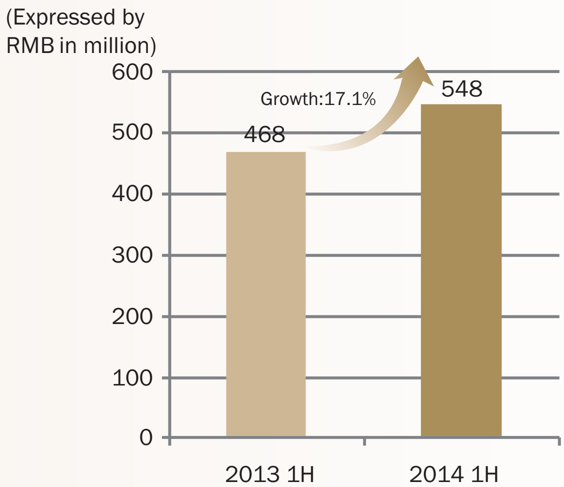
August 29, 2014

Financial Highlights

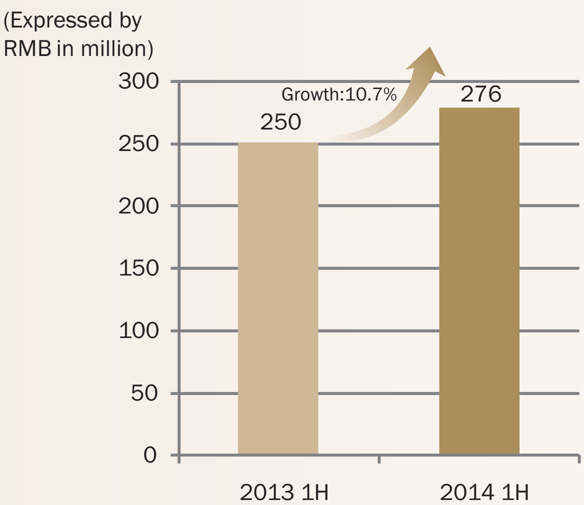
Revenue



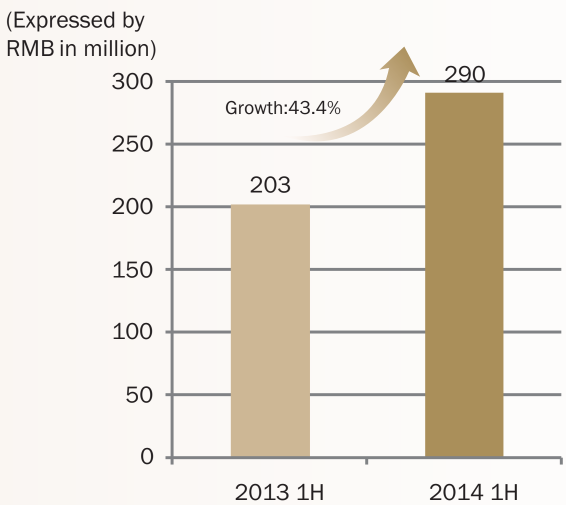
Gross Profit



Net Profit



Adjusted Net Profit(1)



Notes:

(1) Our adjusted profit (excluding the non-cash charge of RMB13.9 million in respect of equity-settled share award) in the six months ended June 30, 2014 was RMB290.3 million, representing a 43.4% increase as compared against RMB202.5 million (excluding RMB66.1 million for the interest income from the controlling shareholder and the related tax impact and RMB2.5 million for the non-cash charge in respect of equity-settled share award) in the six months ended June 30, 2013.

Industry Overview

In the first half of 2014, China's overall economy remained stable, with steady progress in its structural adjustment as well as a positive trend of transformation and upgrades. According to the economic data for the first half of the year issued by the National Bureau of Statistics, the gross domestic product (GDP) for the first half of the year was RMB26,904.4 billion, representing a year-on-year increase of 7.4%, while the GDP for the second quarter registered a year-on-year increase of 7.5% and a season-on-season increase of 2.0%. The national macro-economy gradually stabilized and consumption showcased a steady growth, representing a growth of 54% of the GDP. In the first half of 2014, China's sales of vehicles continued to lead the global economy, with America and Japan ranking second and third, respectively, and was closely followed by Brazil, India and Germany. According to the China Association of Automobile Manufacturers, China's automobile production and sales were 11.7834 million units and 11.6835 million units respectively, representing year-on-year increases of 9.60% and 8.36%, respectively. Production and sales of passenger vehicles accounted for 9.7085 million units and 9.6338 million units, representing year-on-year increases of 12.05% and 11.18%, respectively.

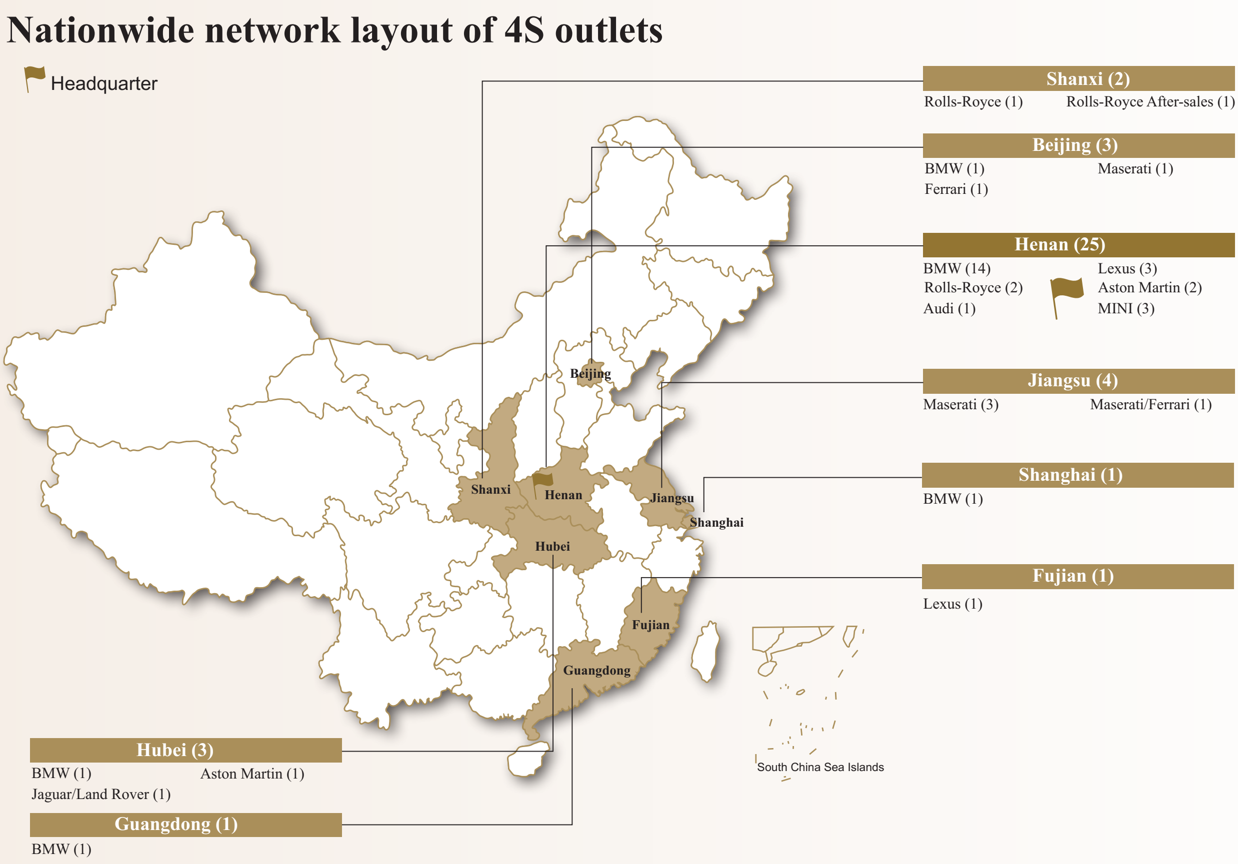
In the first half of 2014, the luxury vehicle market in the PRC maintained a fast growth, representing a 26% increase as compared with that in the same period of 2013. Sales of BMW (including MINI) were 225,000 units, representing a 23.1% increase over the same period of 2013; sales of Land Rover and Jaguar were 62,500 units, representing a 48.2% increase over the same period of 2013; sales of Lexus were 39,300 units, representing a 31.2% increase over the same period of 2013; and sales of Volvo were 38,600 units, representing a 34.3% increase over the same period of 2013.

Meanwhile, ultra-luxury brands achieved outstanding sales results in the PRC market in the first half of 2014. In particular, sales of Rolls-Royce in the global market for the first half of 2014 were 1,968 units, representing an increase of 33.4% as compared with 1,475 units for the same period last year, while sales of Rolls-Royce also recorded a double-digit growth in the PRC market. Sales of Maserati in the global market in 2013 reached 15,400 units, nearly 4,000 units of which were sold in the PRC market, one of its important markets. Such sales in the PRC market represented approximately one-fourth of Maserati's total sales in the global market. Since 2014, Maserati in the PRC market has seen a faster growth in sales. From January to May, average monthly sales of Maserati amounted to about 660 units, representing an increase of 100% as compared with that in the same period last year.

In view of the fundamentals of steady growth achieved by the PRC luxury and ultra-luxury automobiles markets as well as the fact that the PRC automobile market is in the period of upgrading and reforming, the Group has implemented its five development strategies, namely steady development strategy for 4S outlets, proactive development strategy for comprehensive after-sales services, proactive development strategy for new energy vehicles, innovative development strategy for high-end value-added business and innovative internet marketing strategy. As of June 30, 2014, the Group had a total of 61 sales and after-sales outlets of luxury and ultra-luxury vehicles, of which 40 outlets were 4S stores and 21 outlets were comprehensive after-sales stores, covering 13 luxury and ultra-luxury brands, such as Rolls-Royce, Aston Martin, Ferrari, Maserati, BMW, Land Rover, Jaguar, Lexus, MINI, Audi, Volvo, Infiniti, and Lincoln.

1. SOUND 4S STORE BUSINESS

(1) Overview of nationwide network layout



Source : Corporate information

(2) Unique strategic network layout

The Group has always focused on its product quality and profits rather than reckless business scale expansion. To maximize the best interests of the shareholders, the Group is committed to building up its seven unique brands and network development strategies.

1. Adhering to a strategy focuses on luxury and ultra-luxury brands;

2. Adhering to a strategy that stresses on the deployment of the market for luxury brands in the central-western regions to establish our dominant and leading position in such certain regions, so as to ensure profits and quality;

3. Adhering to a strategy that stresses on the deployment of the market for ultra-luxury brands in the first tier cities and economically developed eastern coastal regions, thereby gradually shaping a dominant and leading position;

4. Adhering to the opening of outlets in the prime locations of core cities;

5. Adhering to a strategy that stresses on high-proficient operating pattern with lower proportion of assets;

6. Adhering to a strategy that stresses on the vigorous expansion of 4S affiliates and related after-markets business;

7. Adhering to a strategy that stresses on upholding the principles of “Profit and Quality First” without being solely focused on the business scale expansion.

(3) Stable growth in sales of new vehicles

Our sales volume of new passenger vehicles for the six months ended June 30, 2014 was 9,940 units, representing an increase of 2,896 units or 41.1% over the corresponding period in 2013. In particular, our sales volume for BMW passenger vehicles increased by 37.7% from 6,327 units in the six months ended June 30, 2013 to 8,711 units in the six months ended June 30, 2014; and our sales volume for Lexus passenger vehicles increased by 46.9% from 437 units in the six months ended June 30, 2013 to 642 units in the six months ended June 30, 2014.

Our revenue for sales of new passenger vehicles increased by 32.7% from RMB3,344.9 million for the six months ended June 30, 2013 to RMB4,439.3 million for the six months ended June 30, 2014.

(4) Strong growth in after-sales services of 4S outlets

After-sales services of maturing 4S outlets have become one of the most important drivers of our operation and our profit growth. The Group also benefited from its exclusive focus on luxury and ultra-luxury passenger vehicles, as the owners of luxury and ultra-luxury passenger vehicles were desirous of more professional services and paid more attention to the quality of after-sales services. The business growth of the Group was mainly the result of the organic growth of its own businesses, in particular with the 24 new 4S outlets opened from 2012 to 2013 becoming increasingly matured and the customer base continuing to expand, the after-sales business of the Group's 4S outlets witnessed a rapid development. Revenue from after-sales services of our 4S outlets increased significantly by 45.9% from RMB314.5 million in the six months ended June 30, 2013 to RMB458.8 million in the six months ended June 30, 2014. It is anticipated that 4S outlets will mature in two to three years, and that there will be huge growth potential for the after-sales services of 4S outlets in the upcoming one to two years.

(5) Rapid growth of automobile insurance and finance business, etc.

We have always attached high importance to the development of insurance and finance businesses. In the first half of 2014, insurance and finance businesses contributed to a rapid growth for our commission income. Commission income in the six months ended June 30, 2014 increased by 40.8% as compared with that in the same period of 2013.

(6) Fast development of automobile after-markets business

We highly value the development of our automobile after-markets business. The Group has specially established its after-markets business department and intensified its business development of competitive products, accessories, car retrofitting and car tuning. In 2014, we acquired Shanghai Goocar Pre-owned Automobile Co., Ltd. (上海谷卡二手車有限公司) and endeavored to develop our second-hand vehicle business. We are negotiating with a renowned domestic internet company to promote cooperation in building an online and offline platform for our second-hand vehicle business.

2. PROACTIVE COMPREHENSIVE AFTER-SALES BUSINESS

Comprehensive after-sales business is an innovative business firstly launched by the Group in 2013. It is an innovation reform of after-sales maintenance service in the PRC and in line with the development trend of the PRC automobile market, which has strong competitiveness in the automobile after-sales services market.

Business Overview

(1) Innovation and reform of after-sales maintenance service

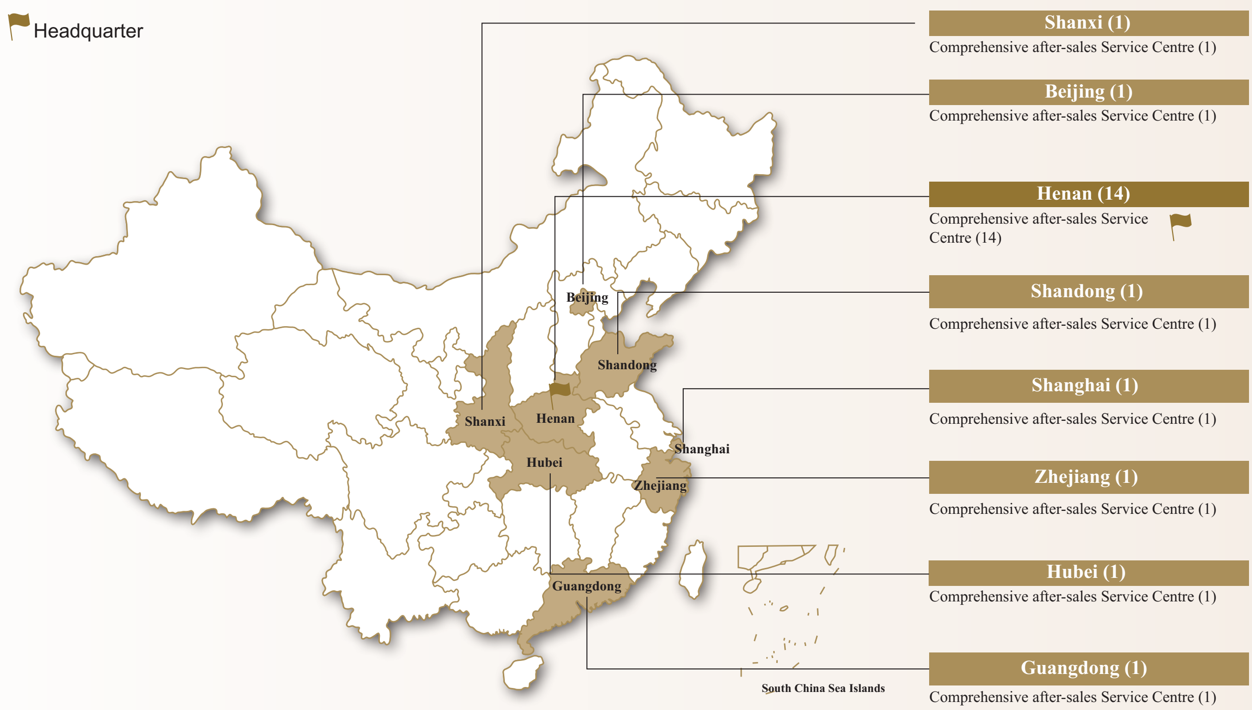
At present, automobile after-sales maintenance services in the overseas markets are dominated by comprehensive after-sales maintenance service model and supported by maintenance service model of 4S outlets. On the other hand, in the PRC market, automobile after-sales maintenance services are primarily provided by 4S outlets, with high selling prices of automobiles, high maintenance costs, high prices of accessories and high claim costs and large investment size. With the development of the PRC automobile industry becoming more market-oriented, transparent and international, as well as the adjustment of after-sales service policy and the gradual alignment with international practice, comprehensive after-sales maintenance service business will become the future development trend of the industry. To seize this opportunity, the Group has initiatively promoted its comprehensive after-sales business in the domestic market, thereby building and strengthening competitiveness.

(2) Network layout of Comprehensive after-sales business

i. We still focus on provision of maintenance services to luxury and ultra-luxury automobiles, covering the brands of BMW, Audi, Benz, Land Rover, Jaguar, Volvo, Lexus, Volkswagen, Rolls-Royce, Astin Martin, Ferrari, Maserati, MINI, Infiniti, Lincoln, Lamborghini, Cadillac, Bentley, etc.

ii. As of June 30, 2014, there are 21 outlets in operation, and the outlet distribution chart is set out below:

Network layout of Comprehensive after-sales Service Centres



Source: Corporate information

(3) The development of growing business

Since the fourth quarter of 2013, we have continued to open 21 comprehensive after-sales outlets. These comprehensive after-sales outlets contributed revenue of RMB106.3 million for the first half of 2014, accounting for 18.8% of the revenue from our after-sales service business for the first half of 2014. During January to June 2014, monthly after-sales services revenue derived from our comprehensive after-sales outlets increased from RMB7.0 million to RMB28.1 million, representing a compound monthly growth rate of 32%. Looking into the future, our fast-growing comprehensive after-sales outlets, which are in operation or will be in operation, will make greater contribution to the growth of our after-sales services, which in return will generate considerable profits for us.

(4) Operation model

With reference to the internationally accepted practice and through practical operation, the Company has established its own operation model of Harmony Comprehensive after-sales, which comprises the following ten aspects: less investment, lower costs and short cycle; super-standardized chain stores; service quality equivalent to that of 4S outlets; higher efficiency; more preferential prices; nation-wide strategic cooperation agreements with insurers; the carrying out of various automobile after-markets businesses such as quality products, insurance, finance, second-hand vehicles, decorations; introduction of mobile internet marketing; building the Company's brands in the field of car maintenance.

(5) Development objectives

The Group is committed to building its brand as a preferred brand in the PRC market for comprehensive maintenance services provided to luxury automobiles and to becoming a leading luxury automobile comprehensive service provider group in China.

3. PROACTIVE DEVELOPMENT STRATEGY FOR NEW ENERGY VEHICLE BUSINESS

New energy vehicle business will be the direction of the global automobile development and is also the reform of the traditional automobile industry, and this reform has come. The Group has seized this opportunity to proactively develop its new energy vehicle business. The Group has cooperated with a renowned electric vehicle company in America in the field of after-sales services. Up to now, the Group's cooperative outlets in Beijing, Shanghai, Hangzhou, etc. have been under operation, whereas the construction of those cooperative outlets in other cities are also in progress and will be successively put into operation. Meanwhile, the Group has initiatively signed cooperation agreement with BMW Brilliance in respect of "Zinoro" electric vehicles to cooperate in marketing, leasing, after-sales services and other aspects. In addition, the Group has also initiatively signed cooperation agreement with BMW China in respect of "i" series electric vehicles to cooperate in marketing, spare parts, information, after-sales services and other aspects.

4. INNOVATIVE DEVELOPMENT STRATEGY FOR HIGH VALUE-ADDED BUSINESS

The Group is committed to the development of its luxury and ultra-luxury automobiles businesses and has accumulated numerous high-end customer resources in the past decade. We have fully consolidated and capitalized these high-end customer resources to innovatively develop high value-added businesses. For instance, we are conducting business negotiations with high-end smartphones companies. We will use our existing luxury and ultra-luxury automobile showroom and platform to provide our high-end customers with customized high-tech products and services. Meanwhile, we are also conducting business negotiations with producers of famous wrist watch brands in Switzerland and of famous luxury brands in France and Italy. We are committed to creating a system of luxuries through consolidation of various resources, and the expansion of these innovative high value-added businesses will become a growth point of our new businesses and profits.

5. INNOVATIVE INTERNET MARKETING STRATEGY

The development of internet will reach into every aspect of people's life. Currently, we are proactively promoting our operating activities on the internet. In addition, we are also conducting business negotiations with two famous internet companies in China to carry out strategic cooperation in the fields of new vehicles, second-hand vehicles, accessories, quality products, after-sales services and others and build our online and offline operation platform.

Financial Overview

Revenue

Revenue was RMB5,004.4 million for the six months ended June 30, 2014, representing an increase of 36.8% from RMB3,659.4 million for the six months ended June 30, 2013. This increase was primarily attributable to an increase in revenue from sales of new passenger vehicles and after-sales services of 4S outlets and comprehensive after-sales outlets.

Revenue from sales of new passenger vehicles increased by 32.7% from RMB3,344.9 million for the six months ended June 30, 2013 to RMB4,439.3 million for the six months ended June 30, 2014, accounting for 88.7% of the revenue (91.4% for the same period in 2013). Such growth in sales of new passenger vehicles were mainly due to increasing demand for luxury and ultra-luxury passenger vehicles as well as a rise in sales driven by the increasing maturity of newly-established outlets of the Group. For the six months ended June 30, 2014, the Group's sale of new vehicles was 9,940 units, representing an increase by 2,896 or 41.1% as compared with the corresponding period in 2013. Sales of luxury and ultra-luxury passenger vehicles in the first half of 2014 were 9,551 units and 389 units, respectively, representing year-on-year increases of 37.3% and 352.3% as compared against the same period in 2013. For the six months ended June 30, 2014, revenue derived from sales of luxury and ultra-luxury passenger vehicles amounted to RMB3,838.3 million and RMB601.0 million, respectively, accounting for 86.5% and 13.5% of that derived from sales of new vehicles (for the same period of 2013: 89.4% and 10.6%) and representing increases of 28.4% and 69.2% as compared with the corresponding period in 2013.

For the first half of 2014, our after-sales service revenue grew significantly due to the increasing maturity of our 4S outlets and the operation of our comprehensive after-sales services. Revenue from after-sales services amounted to RMB565.1 million for the six months ended June 30, 2014, representing an increase of 79.7% over the corresponding period in 2013. Our after-sales service revenue increased to 11.3% of the total revenue in the six months ended June 30, 2014, as compared against 8.6% of the total revenue for the six months ended June 30, 2013. Among our after-sales service revenue, the portion of revenue derived from our 4S outlets increased to RMB458.8 million for the six months ended June 30, 2014, representing an increase of 45.9% as compared against RMB314.5 million for the six months ended June 30, 2013. Such increase was attributable to the increasing maturity of our initially-developed outlets and after-sales demands boosted by an expanded client base. Since the fourth quarter of 2013, we have opened 21 comprehensive after-sales outlets that serve as high-end maintenance workshops specializing in after-sales service, premium accessory installation, and providing insurance services for luxury and ultra-luxury passenger vehicles. As a result of robust growth in revenue following our quick penetration into the enormous market of luxury and ultra-luxury passenger vehicles, our comprehensive after-sales outlets contributed revenue of RMB106.3 million for the six months ended June 30, 2014, accounting for 18.8% of the revenue of our after-sales service revenue for six months ended June 30, 2014. During January to June 2014, monthly after-sales revenue derived from our comprehensive after-sales outlets increased from RMB7.0 million to RMB28.1 million, representing a compound monthly growth rate of 32%. Looking into the future, we believe our fast-growing comprehensive after-sales outlets, which are in operation or will be in operation, will make greater contribution to the growth of our after-sales services, which in return will generate considerable profits for us.

Financial Overview

Cost of sales and services provided

Our cost of sales and services provided increased by 39.6% from RMB3,191.6 million in the six months ended June 30, 2013 to RMB4,456.7 million in the six months ended June 30, 2014, largely in line with the increase of our revenue. Cost of sales attributable to sales of new passenger vehicles increased by 36.6% from RMB3,030.6 million in the six months ended June 30, 2013 to RMB4,140.2 million in the six months ended June 30, 2014. Cost of sales attributable to after-sales services increased by 96.6% from RMB161.0 million in the six months ended June 30, 2013 to RMB316.5 million in the six months ended June 30, 2014.

Gross profit and gross profit margin

Our gross profit increased by RMB79.9 million or 17.1% from RMB467.8 million in the six months ended June 30, 2013 to RMB547.7 million in the six months ended June 30, 2014. Our gross profit margin slightly decreased to 10.9% in the six months ended June 30, 2014, as compared to 12.8% in the six months ended June 30, 2013.

Gross profit from sales of new passenger vehicles decreased by 4.9% to RMB299.1 million for the six months ended June 30, 2014 from RMB314.4 million for the six months ended June 30, 2013. For the six months ended June 30, 2014, sales of new passenger vehicles reported gross profit margin of 6.7%, representing decreases of 2.7% and 1.5% as compared against that for the first half and the second half of 2013, respectively. The Group's sales of new passenger vehicles recorded lower gross profit margin mainly due to the following reasons: due to the Group's business network expansion, more outlets engaged in the sales of new passenger vehicles with lower gross profit margin were opened in non-Henan regions and the selling prices in the automobile market declined in 2014, which affected the gross profit margin from sales of new vehicles; and to further expand our market share, the costs incurred for giving fine gifts or providing complementary maintenance services upon sales of new vehicles offset gross profit of new vehicles. Nevertheless, gross profit margins for sales of luxury and ultra-luxury passenger vehicles are typically higher than those of mid- to high-end passenger vehicles, and our dominant market position in Henan Province provides us with enhanced pricing power in new passenger vehicle sales. Therefore, our gross profit margins for sales of new passenger vehicles are generally higher and less affected by brand mix compared with dealerships that have a mixed portfolio.

Gross profit from our after-sales services surged by 62.1% from RMB153.4 million for the six months ended June 30, 2013 to RMB248.6 million for the six months ended June 30, 2014. Of the total gross profit, gross profit contributed by our after-sales services increased to 45.4% for the first half of 2014 as compared against that 32.8% for the first half of 2013. Such increase was mainly attributable to the following factors: with a growing client base for our maturing 4S outlets and an expanding market share, gross profit derived from after-sales services as provided by our 4S outlets increased by 30.5% from RMB153.4 million for the six months ended June 30, 2013 to RMB200.2 million for the six months ended June 30, 2014, while our comprehensive after-sales service outlets that commenced operation since the fourth quarter of 2013 contributed gross profit from after-sales services of RMB48.4 million for the six months ended June 30, 2014. Gross profit as provided by our comprehensive after-sales outlets accounted for 19.5% of the total gross profit derived from our after-sales services. For the six months ended June 30, 2014, gross profit margin of our after-sales service was 44.0%, representing a decrease of 4.8% as compared against the first half 2013 and remain flat as compared to the second half of 2013. Our comprehensive after-sales service outlets lowered its prices as compared to that charged by the 4S outlets, causing its gross profit margin to be slightly lower than that of the 4S outlets. As a result, our gross profit margin experienced a slight decrease.

Selling and administrative expenses

As compared to RMB209.9 million in the six months ended June 30, 2013, selling and administrative expenses increased by 37.2% to RMB287.9 million in the six months ended June 30, 2014. The selling and administrative expenses for the six months ended June 30, 2014 included non-cash charge of RMB13.9 million in respect of equity-settled share award and the depreciation and amortisation expenses of RMB45.9 million (the same period of 2013: RMB2.5 million and RMB32.1 million). Excluding the aforesaid factors, as compared to the same period last year, the selling and administrative expenses increased by 30.1%, and was lower than the growth rate of revenue of 36.8%, among which the proportion of the cash-settled selling and administrative expenses with respect to revenue decreased by 0.2%. The reasons were mainly due to the fact that (i) the Group was committed to strictly controlling administrative expenses and saving and reducing entertainment and office expenses; (ii) the Group integrated the service provided by different advertisement service providers and consolidated promotional activities, thereby improving the effectiveness of the marketing activities and saving marketing expenses relatively; and (iii) the Group adopted a policy of "Those who are competent, will take charge" to effectively consolidate human resources costs.

Other income and gains, net

Other income and gains, net (excluding interest income from the Controlling Shareholder) increased by 91.8% from RMB102.4 million in the six months ended June 30, 2013 to RMB196.4 million in the six months ended June 30, 2014, and the increase was primarily due to:

- the commission income for the six months ended June 30, 2014 was RMB98.7 million, representing an increase of 40.8% over RMB70.1 million for the six months ended June 30, 2013, primarily attributable to the following reasons: (i) sales volume of new passenger vehicles was increased; (ii) as compared to cash payment, more new passenger vehicles were purchased using the financing services provided by manufacturers, which led to improvement of financing coverage; (iii) the increasing number of customers who used the insurance and extended insurance services we referred when purchasing new passenger vehicles; (iv) the rate of the installation of premium accessories to new vehicles was on the rise, satisfying the customized requirements of customers for vehicles; and (v) we specially established our second-hand vehicle business segment in the Group and acquired Shanghai Goocar Pre-owned Automobile Co., Ltd. (上海谷卡二手車有限公司), improving the selection and replacement rates of second-hand vehicles;

- a 55.3% increase in bank interest income from RMB19.0 million in the six months ended June 30, 2013 to RMB29.5 million in the six months ended June 30, 2014, primarily attributable to the increase in our bank deposit contributed partly by the proceeds from the global offering;

- other interest income of RMB29.8 million was incurred for the six months ended June 30, 2014 as the Group made loans to third parties in the second half of 2013 and a penalty income of RMB15.8 million was recognised from the cancellation by the counter-party of a potential acquisition contract in the first half of 2014.

Financial Overview

Interest income from the Controlling Shareholder

Interest income from the Controlling Shareholder decreased by 100% from RMB66.1 million for the six months ended June 30, 2013 to RMB0 for the six months ended June 30, 2014, primarily because the loan we granted to the Controlling Shareholder at an annual interest rate of 15% was repaid in full before June 30, 2013.

Profit from operations

Based on the reasons discussed above, the Group's profit from operations for the six months ended June 30, 2014 was RMB456.1 million, representing an increase of 7.0% as compared to RMB426.4 million for the six months ended June 30, 2013. In the six months ended June 30, 2014, the Group's adjusted profit from operations (excluding RMB13.9 million for the non-cash charge in respect of equity-settled share award) was RMB470.0 million, representing an increase of 29.5% as compared to RMB362.8 million (excluding RMB66.1 million for the interest income from the Controlling Shareholder and RMB2.5 million for the non-cash charge in respect of equity-settled share award) for the six months ended June 30, 2013.

Profit for the period

As a result of the foregoing, our profit in the six months ended June 30, 2014 was RMB276.4 million, representing an increase of 10.7% as compared against RMB249.6 million in the six months ended June 30, 2013. Our adjusted profit (excluding the non-cash charge of RMB13.9 million in respect of equity-settled share award) in the six months ended June 30, 2014 was RMB290.3 million, representing a 43.4% increase as compared against RMB202.5 million (excluding RMB66.1 million for the interest income from the Controlling Shareholder and the related tax impact and RMB2.5 million for the non-cash charge in respect of equity-settled share award) in the six months ended June 30, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Our primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and after-sales outlets and to fund our working capital and normal operating expenses. We finance our liquidity needs through a combination of short-term bank loans and cash flows generated from our operating activities.

Our net cash generated from operating activities was RMB31.9 million in the six months ended June 30, 2014, as compared to net cash used in operating activities of RMB79.6 million in the six month ended June 30, 2013. For the six months ended June 30, 2014 and 2013, net cash used in investing activities was RMB211.1 million and RMB173.9 million, respectively. Net cash generated from financing activities in the six months ended June 30, 2014 and 2013 was RMB203.7 million and RMB1,420.3 million (inclusive of the proceeds of RMB1,180.6 million we received from the Global Offering), respectively.

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

Net current assets

As of June 30, 2014, we had net current assets of RMB427.6 million, which was relatively stable as compared to net current assets of RMB429.7 million as of December 31, 2013.

Capital expenditure

For the six months ended June 30, 2014, our capital expenditure, which was primarily intended for the purchase of items of property, plant and equipment in connection of establishment of new outlets, was RMB328.3 million (for the six months ended June 30, 2013: RMB302.4 million).

Inventory

Our inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Each of our outlets individually manages its orders for new passenger vehicles and after-sales products, but a monthly report is submitted by each outlet to our headquarters for review.

Our inventories decreased by RMB209.2 million or 13.7% from RMB1,526.8 million as of December 31, 2013 to RMB1,317.6 million as of June 30, 2014, primarily due to a decrease in our inventory of new passenger vehicles by 16.5% from RMB1,441.1 million as of December 31, 2013 to RMB1,203.1 million as of June 30, 2014. Low-moving inventories of vehicles were reduced due to the fact that our management made relatively accurate judgment on the expected demand from the passenger vehicle market, implemented a precautionary inventory control system, and strengthened promotion efforts at the beginning of the year in formulating timely promotion and marketing plans and relevant measures based on the market conditions. In addition, we also consolidated inventory management within the Group and improved the efficiency of goods allocation among outlets, which further contributed to reduction of inventories.

Our average inventory turnover days in the six months ended June 30, 2014 were 57 days, a slight increase from 55 days in the six months ended June 30, 2013, which was mainly attributable to the relatively large inventory balance at the beginning of 2014 (as the Group opened relatively more 4S outlets in the fourth quarter of 2013 and the inventory requirement has caused an increase in the inventory level at the end of 2013 accordingly). Based on the closing inventory balance, our inventory turnover days in the six months ended June 30, 2014 were 53, representing dramatic decrease of approximately 17 days and 13 days as compared to the first and second half of 2013, respectively. The decrease was mainly due to the fact that the Group adopted the above mentioned measures in the first half of 2014 to gradually dispose and reduce our complete vehicles inventory, which in turn enhanced the utilisation efficiency for inventories and capitals of the Group.

Financial Overview

Bank loans and other borrowings

As at June 30, 2014, we had bank loans and other borrowings in the aggregate amount of RMB3,030.6 million, as compared to RMB2,720.3 million as at December 31, 2013. The table below sets forth breakdowns of our bank loans and other borrowings as of the indicated dates:

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Bank loans repayable:		
Within one year or on demand	**2,346,192**	1,951,447
In the second year	**15,360**	15,360
In the third to fifth years	**26,480**	32,880
	2,388,032	1,999,687
Other borrowings repayable:		
Within one year or on demand	**642,611**	720,598
Total	**3,030,643**	2,720,285

Our gearing ratio, which is calculated by net debt (total debt minus cash and cash equivalents and structured deposits) divided by the total equity attributable to owners of the parent plus net debt, was 57.3% as at June 30, 2014.

As at June 30, 2014, certain of our bank loans and other borrowings were secured by mortgages or pledges over our assets. Our assets subject to these mortgages or pledges as at June 30, 2014 consisted of (i) inventories in the amount of RMB584.6 million; (ii) property, plant and equipment in the amount of RMB31.3 million; and (iii) land use rights in the amount of RMB12.9 million. In addition, certain of our bank loans and other borrowings were guaranteed by the Controlling Shareholder or affiliates of the Controlling Shareholder.

Contingent liabilities

As at June 30, 2014, we did not have any material contingent liabilities or guarantees.

Interest rate risk and foreign exchange risk

We are exposed to interest rate risk resulting from fluctuations in interest rate on our debt. Certain of our borrowings have floating interest rates that are mostly linked to the benchmark rates of the People's Bank of China. Increases in interest rate could result in an increase in our cost of borrowing. If this occurs, it could adversely affect our finance costs, profit and our 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. We do not currently use any derivative instruments to manage our interest rate risk.

Substantially all of our revenue, cost of revenue and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. We do not believe our operations are currently subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

Employees and remuneration policies

As at June 30, 2014, the Group had a total of 3,229 employees (December 31, 2013: 2,584 employees; June 30, 2013: 2,222 employees). Relevant staff cost for the six months ended June 30, 2014 was approximately RMB115.7 million (including employee share incentive of RMB13.9 million), while our staff cost was approximately RMB62.7 million for the six months ended June 30, 2013. The Group will regularly review its remuneration policy and the benefits to its employees with reference to market practice and the performance of individual employees.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at June 30, 2014, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name	Position	Name of Corporation	Capacity/Nature of Interest	Number of Shares/ Underlying Shares[6]	Approximate % of Shareholding Interest
Mr. FENG Changge	Director	Company	Interest of controlled corporation	711,720,000 (L)[1]	65.04%
Ms. MA Lintao	Director	Company	Interest of spouse	711,720,000 (L)[1]	65.04%
Mr. YU Feng	Director	Company	Beneficial owner	2,600,994 (L)[2][3]	0.23%
Mr. YANG Lei	Director	Company	Beneficial owner	2,444,347 (L)[2][4]	0.22%
Mr. CUI Ke	Director	Company	Beneficial owner	1,817,760 (L)[2][5]	0.16%
Mr. FONG Heung Sang, Addy (Dexter)	Chief Financial Officer	Company	Beneficial owner	1,974,407 (L)[2]	0.18%

Notes:

(1) These shares in the Company (the "Shares") are held by Eagle Seeker Company Limited ("Eagle Seeker"). Mr. FENG Changge is deemed to be interested in the Shares by virtue of Eagle Seeker being controlled by Mr. FENG Changge. Ms. MA Lintao is Mr. FENG Changge's spouse and is therefore deemed to be interested in all the Shares in which Mr. FENG Changge is deemed to be interested in.

(2) These shares represent Shares underlying the restricted share unit awards ("RSU Awards") granted to the relevant Directors/chief executive pursuant to the restricted share unit scheme ("RSU Scheme") of the Company. For further details, please refer to the section headed "Restricted Share Unit Scheme" below.

(3) Mr. YU Feng had on July 23, 2014 acquired 30,000 Shares in the capacity as beneficial owner, and that his interest in the Shares increased to 2,630,994.

(4) Mr. YANG Lei had on July 23, 2014 acquired 20,000 Shares in the capacity as beneficial owner, and that his interest in the Shares increased to 2,464,347.

(5) Mr. CUI Ke had on July 23, 2014 acquired 10,000 Shares in the capacity as beneficial owner, and that his interest in the Shares increased to 1,827,760.

(6) The letter "L" denotes the long position in such Shares.

Save as disclosed above, as at June 30, 2014, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

Restricted Share Unit Scheme

On May 20, 2013, the RSU Scheme of the Company was approved and adopted by the then shareholders of the Company. The purpose of the RSU Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in our Company.

A RSU Award granted under the RSU Scheme gives a participant in the RSU Scheme (the "RSU Participant") a conditional right when the RSU Award vests to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion.

On May 28, 2013, RSU Awards in respect of an aggregate of 19,110,898 new Shares, representing approximately 1.75% of the Shares in issue as at the date of this report, were granted pursuant to the RSU Scheme to several RSU Participants, 5 of which were Directors. The RSU Awards granted to the RSU Participants on May 28, 2013 pursuant to the RSU Scheme originally had a vesting period of four years as follows: 10% on January 2, 2014, 30% on January 2, 2015, 30% on January 2, 2016 and 30% on January 2, 2017. Pursuant to a resolution passed by the Board on August 27, 2013 and as confirmed by each of the RSU Participants, the vesting period in respect of the RSU Awards granted is extended from four years to five years as follows: 10% on January 2, 2014, 10% on June 30, 2014, 20% on January 2, 2015, 20% on January 2, 2016, 20% on January 2, 2017 and 20% on January 2, 2018. Other than the adjustments in the number of Shares underlying the RSU Awards granted to certain RSU Participants as described in the previous paragraph and the duration of the vesting period, the terms of the RSU Scheme remain unchanged. Please refer to the prospectus of the Company dated May 31, 2013 for further details of the principal terms of the RSU Scheme. As of June 30, 2014, 1,878,786 RSU Awards lapsed due to the resignation of certain RSU Participants.

Details of the RSU Awards granted and outstanding under the RSU Scheme are set out below:

Name	**Number of Shares represented by RSU Awards as at January 1, 2014**	**Lapsed during the period**	**Number of Shares represented by RSU Awards as at June 30, 2014**
Directors			
Mr. YU Feng	2,600,994	0	2,600,994
Mr. YANG Lei	2,444,347	0	2,444,347
Mr. CUI Ke	1,817,760	0	1,817,760
Former Directors			
Mr. FONG Heung Sang, Addy (Dexter) (1)	1,974,407	0	1,974,407
Ms. LIU Wei (2)	1,739,437	1,565,493	173,944
Employees	8,533,953	313,293	8,220,660
Total	**19,110,898**	**1,878,786**	**17,232,112**

Notes:

(1) Mr. FONG Heung Sang, Addy (Dexter) has resigned as a Director of the Company with effect from June 16, 2014 but remains as the Chief Financial Officer.

(2) Ms. LIU Wei has resigned as a Director of the Company with effect from January 29, 2014. Having agreed between Ms. LIU and the Company, she could retain 10% of her original entitlement.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at June 30, 2014, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares Directly or Indirectly Held[3]	Approximate % of Shareholding Interest
Eagle Seeker[1]	Beneficial owner	711,720,000(L)	65.04%
LC Fund V, L.P.	Beneficial owner	63,680,000(L)	5.81%
JPMorgan Chase & Co.	Beneficial owner	6,383,000(L)	
	Investment manager	37,828,000(L)	
	Custodian corporation/ approved lending agent	17,899,000(L)	
		62,110,000[2]	5.67%

Notes:

(1) Eagle Seeker is wholly-owned by Mr. FENG Changge, an executive Director and the chairman of the Company.

(2) JPMorgan Chase & Co. had, or was deemed to have, an interest in a total number of 62,110,000 Shares (including a lending pool of 17,899,000 Shares), of which (i) 6,383,000 Shares were beneficial interest held by J.P. Morgan Clearing Corp, a company wholly-owned by J.P. Morgan Securities LLC, the sole member of which is J.P. Morgan Broker-Dealer Holdings Inc. J.P. Morgan Broker-Dealer Holdings Inc. is in turn wholly-owned by JPMorgan Chase & Co.; (ii) 37,828,000 Shares were interest held as an investment manager by J.P. Morgan Investment Management Inc., a company wholly-owned by JPMorgan Asset Management Holdings Inc., which is in turn wholly-owned by JPMorgan Chase & Co.; and (iii) 17,899,000 Shares were interest held by JPMorgan Chase Bank, N.A. as custodian corporation/approved lending agent. JPMorgan Chase Bank, N.A. is wholly-owned by JPMorgan Chase & Co.

As each of the above entities is ultimately controlled by JPMorgan Chase & Co., JPMorgan Chase & Co. was deemed to have a long position in such 62,110,000 Shares.

(3) The letter "L" denotes long position in such Shares.

Save as disclosed above, as at June 30, 2014, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended June 30, 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Model Code for Securities Transactions by Directors

The Company has adopted 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 June 30, 2014.

Compliance with the Corporate Governance Code

For the six months ended June 30, 2014, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the Code and maintaining a high standard of corporate governance practices of the Company.

Interim Dividend

The Board does not recommend the payment of interim dividend for the six months ended June 30, 2014.

Change in Directors' Biographical Details

Mr. Wang Nengguang, a non-executive Director, became the independent director of Digital China Information Service Company Ltd. (神州數碼信息服務股份有限公司) (Stock Code: 000555.SZ), a company listed on the Shenzhen Stock Exchange with effect from May 16, 2014.

Mr. Xiao Changnian, an independent non-executive Director, no longer served as the chairman of the board of supervisors of the Quantum Hi-Tech (China) Biological Co., Ltd (量子高科（中國）生物股份有限公司) (Stock Code: 300149.SZ), a company listed on the Shenzhen Stock Exchange, with effect from August 14, 2014.

Save as disclosed above, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Corporate Governance and Other Information

Audit Committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Listing Rules and the Code. As at the date of this report, 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 June 30, 2014.

Interim Consolidated Statement of Profit or Loss

For the six months ended June 30, 2014

	Notes	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Revenue	4(a)	**5,004,368**	3,659,406
Cost of sales and services	5(b)	**(4,456,684)**	(3,191,585)
Gross profit		**547,684**	467,821
Other income and gains, net	4(b)	**196,356**	168,441
Selling and distribution expenses		**(237,222)**	(164,691)
Administrative expenses		**(50,719)**	(45,178)
Profit from operations		**456,099**	426,393
Finance costs	6	**(98,380)**	(82,161)
Share of profit of an associate		**2,389**	151
Profit before tax	5	**360,108**	344,383
Income tax expense	7	**(83,701)**	(94,811)
Profit for the period		**276,407**	249,572
Attributable to:			
Owners of the parent		**274,686**	250,812
Non-controlling interests		**1,721**	(1,240)
		276,407	249,572
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic (RMB)		**0.26**	0.30
Diluted (RMB)		**0.26**	0.30

The accompanying notes on pages 34 to 56 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2014

	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
PROFIT FOR THE PERIOD	**276,407**	249,572
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,168**	257
Other comprehensive income for the period, net of tax	**1,168**	257
Total comprehensive income for the period, net of tax	**277,575**	249,829
Attributable to:		
Owners of the parent	**275,854**	251,069
Non-controlling interests	**1,721**	(1,240)
	277,575	249,829

The accompanying notes on pages 34 to 56 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Financial Position

June 30, 2014

	Notes	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,956,648**	1,722,102
Land use rights		**12,897**	13,097
Intangible assets		**5,184**	4,381
Prepayments		**87,752**	104,444
Investment in an associate		**8,912**	6,523
Deferred tax assets		**21,144**	17,338
Total non-current assets		**2,092,537**	1,867,885
CURRENT ASSETS			
Inventories	10	**1,317,574**	1,526,794
Trade receivables	11	**61,558**	116,777
Prepayments, deposits and other receivables	12	**1,661,480**	1,319,910
Amounts due from related parties	22(a)	**910**	37,495
Structured deposits		**769,500**	–
Pledged bank deposits		**1,041,280**	741,775
Cash in transit		**48,533**	34,012
Cash and cash equivalents		**1,460,000**	1,964,365
Total current assets		**6,360,835**	5,741,128
CURRENT LIABILITIES			
Bank loans and other borrowings	13	**2,988,803**	2,672,045
Trade and bills payables	14	**1,538,372**	1,363,883
Other payables and accruals		**934,536**	937,299
Dividend payable		**67,251**	–
Income tax payable		**404,261**	338,152
Total current liabilities		**5,933,223**	5,311,379
NET CURRENT ASSETS		**427,612**	429,749
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,520,149**	2,297,634

Interim Consolidated Statement of Financial Position

June 30, 2014

	Notes	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	13	41,840	48,240
Deferred tax liabilities		15,009	12,274
Total non-current liabilities		56,849	60,514
NET ASSETS		2,463,300	2,237,120
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	8,633	8,633
Reserves		2,434,675	2,144,965
Proposed final dividend		–	67,251
		2,443,308	2,220,849
Non-controlling interests		19,992	16,271
Total equity		2,463,300	2,237,120

The accompanying notes on pages 34 to 56 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Changes in Equity

For the six months ended June 30, 2014

	Attributable to owners of the parent										
	Share capital RMB'000	**Share premium RMB'000***	**Statutory reserve RMB'000***	**Merger reserve RMB'000***	**Share award reserve RMB'000***	**Exchange fluctuation reserve RMB'000***	**Retained profits RMB'000***	**Proposed final dividend RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
At January 1, 2014	**8,633**	**1,126,913**	**89,672**	**371,200**	**23,848**	**1,296**	**532,036**	**67,251**	**2,220,849**	**16,271**	**2,237,120**
Profit for the period	–	–	–	–	–	–	274,686	–	274,686	1,721	276,407
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	–	–	–	–	–	1,168	–	–	1,168	–	1,168
Total comprehensive income for the period	–	–	–	–	–	1,168	274,686	–	275,854	1,721	277,575
Non-controlling interests arising from establishment of new subsidiaries	–	–	–	–	–	–	–	–	–	2,000	2,000
Final 2013 dividend declared	–	–	–	–	–	–	–	(67,251)	(67,251)	–	(67,251)
Equity-settled share award expense (note 16)	–	–	–	–	13,856	–	–	–	13,856	–	13,856
At June 30, 2014 (Unaudited)	**8,633**	**1,126,913**	**89,672**	**371,200**	**37,704**	**2,464**	**806,722**	**–**	**2,443,308**	**19,992**	**2,463,300**

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium RMB'000*	Statutory reserve RMB'000*	Merger reserve RMB'000*	Share award reserve RMB'000*	Exchange fluctuation reserve RMB'000*	Retained profits RMB'000*	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2013	–	–	58,449	371,200	–	(15)	159,124	588,758	13,281	602,039
Profit for the period	–	–	–	–	–	–	250,812	250,812	(1,240)	249,572
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	–	257	–	257	–	257
Total comprehensive income for the period	–	–	–	–	–	257	250,812	251,069	(1,240)	249,829
Issue of shares	8,633	1,215,059	–	–	–	–	–	1,223,692	–	1,223,692
Equity-settled share award expense (note 16)	–	–	–	–	2,468	–	–	2,468	–	2,468
At June 30, 2013 (Unaudited)	8,633	1,215,059	58,449	371,200	2,468	242	409,936	2,065,987	12,041	2,078,028

* These reserve accounts comprise the consolidated reserves of RMB2,434,675,000 (December 31, 2013: RMB2,144,965,000) in the interim consolidated statement of financial position as at June 30, 2014.

The accompanying notes on pages 34 to 56 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Cash Flows

For the six months ended June 30, 2014

	Notes	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Operating activities			
Profit before tax		360,108	344,383
Adjustments for:			
Share of profit of an associate		(2,389)	(151)
Depreciation of items of property, plant and equipment	5(c)	45,365	31,623
Amortisation of land use rights	5(c)	200	200
Amortisation of intangible assets	5(c)	325	244
Interest income		(64,561)	(85,081)
Penalty income from cancellation of a potential acquisition contract	4(b)	(15,835)	–
Net loss/(gain) on disposal of items of property, plant and equipment	5(c)	4,338	(142)
Equity-settled share award expense	5(a)	13,856	2,468
Finance costs	6	98,380	82,161
		439,787	375,705
Increase in pledged bank deposits		(299,505)	(187,605)
Increase in cash in transit		(14,521)	(77,072)
Decrease in trade receivables		55,219	779
Increase in prepayments, deposits and other receivables		(502,122)	(185,975)
Decrease/(increase) in inventories		213,478	(528,283)
Increase in trade and bills payables		174,489	459,744
(Decrease)/increase in other payables and accruals		(16,259)	73,603
Cash generated from/(used in) operations		50,566	(69,104)
Income tax paid		(18,663)	(10,467)
Net cash generated from/(used in) operating activities		31,903	(79,571)
Investing activities			
Purchase of items of property, plant and equipment		(270,931)	(228,018)
Proceeds from disposal of items of property, plant and equipment		42,948	22,387
Purchase of intangible assets		(628)	(2,381)
Acquisition of a subsidiary		(4,758)	–
Repayment of advance to an associate		–	580
Repayment of advance to the Controlling Shareholder, net		36,585	742,529
Repayment of advance to a third party		159,500	–
Deposit paid for potential acquisition		–	(47,489)
Penalty income from cancellation of a potential acquisition contract		15,835	–
Decrease/(increase) in time deposits		530,100	(680,500)
Increase in structure deposits		(769,500)	–
Interest received		49,798	19,004
Net cash used in investing activities		(211,051)	(173,888)

Interim Consolidated Statement of Cash Flows

For the six months ended June 30, 2014

	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Financing activities		
Proceeds from issue of shares	–	1,319,737
Share issue expenses	–	(96,045)
Proceeds from bank loans and other borrowings	4,225,258	2,788,279
Repayment of bank loans and other borrowings	(3,914,900)	(2,492,098)
Contributions from non-controlling shareholders	2,000	–
Interest paid	(108,643)	(99,602)
Net cash generated from financing activities	203,715	1,420,271
Net increase in cash and cash equivalents	24,567	1,166,812
Cash and cash equivalents at the beginning of each period	783,865	342,685
Effect of foreign exchange rate changes, net	1,168	257
Cash and cash equivalents at the end of each period	809,600	1,509,754
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	809,600	1,509,754
Cash and cash equivalents as stated in the statement of cash flows	809,600	1,509,754
Non-pledged time deposits with original maturity of more than three months when acquired	650,400	680,500
Cash and cash equivalents as stated in the statement of financial position	1,460,000	2,190,254

The accompanying notes on pages 34 to 56 form an integral part of the interim condensed consolidated financial statements.

1. GENERAL INFORMATION

China Harmony Auto Holding Limited (the "Company") 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 Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale and service of motor vehicles 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 June 30, 2014 (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"). The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim condensed consolidated financial statements were 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 August 29, 2014. These interim condensed consolidated financial statements have not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies

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 financial statements for the year ended December 31, 2013, except for the adoption of the new standards and interpretations as of January 1, 2014, noted below.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of these new and revised HKFRSs has had no significant financial effect on the interim condensed consolidated financial statements.

2.3 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKFRS 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 11 Amendments	Amendments to HKFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[2]
HKFRS 15	*Revenue from Contracts with Customers*[3]
HKAS 16 and HKAS 38 Amendments	Amendments to HKAS 16 and HKAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
HKAS 16 and HKAS 41 Amendments	Amendments to HKAS 16 and HKAS 41 – *Agriculture: Bearer Plants*[2]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[1]
Annual Improvements 2010-2012 Cycle	*Amendments to a number of HKFRSs issued in January 2014*[1]
Annual Improvements 2011-2013 Cycle	*Amendments to a number of HKFRSs issued in January 2014*[1]

1 Effective for annual periods beginning on or after July 1, 2014
2 Effective for annual periods beginning on or after January 1, 2016
3 Effective for annual periods beginning on or after January 1, 2017
4 No mandatory effective date yet determined but is 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. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale and service of motor vehicles. 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 and service of motor vehicles 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 in accordance with HKFRS 8 *Operating Segments*.

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 in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

Revenue, which is also the Group's turnover, 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 June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Revenue from the sale of motor vehicles	**4,439,295**	3,344,948
Others	**565,073**	314,458
	5,004,368	3,659,406

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

(b) Other income and gains, net:

	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Commission income	**98,696**	70,081
Advertisement support received from motor vehicle manufacturers	**4,596**	2,497
Bank interest income	**29,491**	19,004
Interest income from the Controlling Shareholder[(i)]	**–**	66,077
Interest income from loans to third parties	**29,762**	–
Net gain on disposal of items of property, plant and equipment	**–**	142
Penalty income from cancellation of a potential acquisition contract	**15,835**	–
Others	**17,976**	10,640
Total	**196,356**	168,441

Note:

(i) Interest income from controlling shareholder, Mr. Feng Changge, (the "Controlling Shareholder") was generated from loans the Group granted to the Controlling Shareholder before the Company's Listing, which bore an annual interest rate of 15% for the six months ended June 30, 2013.

5. PROFIT BEFORE TAX

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

		For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
(a)	**Employee benefit expense (including directors' and chief executive's remuneration)**		
	Wages and salaries	87,272	50,708
	Equity-settled share award expense	13,856	2,468
	Other welfare	14,589	9,545
		115,717	62,721
(b)	**Cost of sales and services**		
	Cost of sales of motor vehicles	4,140,246	3,030,561
	Others	316,438	161,024
		4,456,684	3,191,585
(c)	**Other items**		
	Depreciation of items of property, plant and equipment	45,365	31,623
	Amortisation of land use rights	200	200
	Amortisation of intangible assets	325	244
	Net loss/(gain) on disposal of items of property, plant and equipment	4,338	(142)
	Advertisement and business promotion expenses	32,606	37,040
	Bank charges	7,364	4,089
	Lease expenses	29,218	10,105
	Logistics and petroleum expenses	10,206	5,612
	Office expenses	3,877	9,610
	Foreign exchange differences, net	(189)	1,103

6. FINANCE COSTS

	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Interest expense on bank borrowings wholly repayable within five years	**96,628**	85,820
Interest expense on other borrowings	**12,015**	13,782
Less: Interest capitalised	**(10,263)**	(17,441)
	98,380	82,161

7. INCOME TAX

	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Current Mainland China corporate income tax	**84,772**	91,286
Deferred tax	**(1,071)**	3,525
	83,701	94,811

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. No provision for Hong Kong profits tax has been made as the Group had 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%.

8. DIVIDENDS

	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Dividends on ordinary shares declared during the period		
Final dividends for 2013: HK$8 cents (2012: Nil)	**67,251**	–

The Board of the Company has resolved not to declare any interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil).

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 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 share award scheme.

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

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

	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	**274,686**	250,812

	For the six months ended June 30, 2014 Unaudited	For the six months ended June 30, 2013 Unaudited
Shares		
Weighted average number of ordinary shares in issue during the period	**1,075,126,000**	825,984,122
Effect of dilution – weighted average number of ordinary shares:		
– Restricted shares	**–**	1,804,918
	1,075,126,000	827,789,040

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended June 30, 2013 includes the weighted average of 275,126,000 shares issued in connection with the Company's IPO as defined in the prospectus of the Company dated May 31, 2013 and 800,000,000 ordinary shares deemed to have been issued as at January 1, 2013.

10. INVENTORIES

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Motor vehicles	**1,203,119**	1,441,076
Spare parts and accessories	**114,455**	85,718
	1,317,574	1,526,794

At June 30, 2014, certain of the Group's inventories with an aggregate carrying amount of approximately RMB584,610,000 (December 31, 2013: RMB432,000,000) were pledged as security for the Group's bank loans and other borrowings (note 13(a)).

At June 30, 2014, certain of the Group's inventories with an aggregate carrying amount of approximately RMB347,068,000 (December 31, 2013: RMB419,220,000) were pledged as security for the Group's bills payable (note 14).

11. TRADE RECEIVABLES

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Trade receivables	**61,558**	116,777

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.

11. TRADE RECEIVABLES (continued)

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

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Within 3 months	55,841	112,794
More than 3 months but less than 1 year	5,717	3,983
	61,558	116,777

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Neither past due nor impaired	61,558	116,777

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

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Prepayments to suppliers	**850,939**	335,446
Rebate receivables	**308,224**	338,662
Loans to third parties[(i)]	**247,525**	232,763
Advance to a third party[(ii)]	**–**	159,500
VAT recoverable[(iii)]	**162,789**	231,357
Staff advances	**7,049**	4,159
Others	**84,954**	18,023
	1,661,480	1,319,910

Note:

(i) The loans granted to third parties are guaranteed by the Controlling Shareholder and 河南和諧實業集團有限公司 (Henan Hexie Industrial Group Co., Ltd. ("Hexie Industrial Group")), which is controlled by the Controlling Shareholder. These loans granted to third parties earn interest at fixed interest rates of 25% and have a maturity period within one year.

(ii) As at December 31, 2013, this advance was granted to a company, which is controlled by an employee of the Group. The advance is interest-free and guaranteed by the Controlling Shareholder and Hexie Industrial Group. The advance was fully settled in March 2014.

(iii) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is deductible input VAT, which has not been claimed to the tax bureau. The applicable tax rate for domestic sales of the Group is 17%.

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.

13. BANK LOANS AND OTHER BORROWINGS

	June 30, 2014 Unaudited		December 31, 2013 Audited	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
Current				
Bank loans	5.6-9.4	2,346,192	5.9-9.0	1,951,447
Other borrowings	8.2-8.3	642,611	8.2-8.5	720,598
		2,988,803		2,672,045
Non-current				
Bank loans	8.7	41,840	8.7	48,240
		3,030,643		2,720,285

13. BANK LOANS AND OTHER BORROWINGS (continued)

		June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Bank loans and other borrowings representing:			
–secured	(a)	**1,301,484**	619,342
–guaranteed	(b)	**939,400**	1,226,940
–secured and guaranteed	(a)(b)	**452,673**	586,438
–unsecured		**337,086**	287,565
		3,030,643	2,720,285
Analysed into:			
Bank loans repayable:			
Within one year or on demand		**2,346,192**	1,951,447
In the second year		**15,360**	15,360
In the third to fifth years, inclusive		**26,480**	32,880
		2,388,032	1,999,687
Other borrowings repayable:			
Within one year or on demand		**642,611**	720,598
		3,030,643	2,720,285

13. BANK LOANS AND OTHER BORROWINGS (continued)

(a) Certain of the Group's bank loans and other borrowing are secured by:

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB12,897,000 as at June 30, 2014 (December 31, 2013: RMB13,097,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB31,251,000 as at June 30, 2014 (December 31, 2013: RMB35,092,000); and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB584,610,000 as at June 30, 2014 (December 31, 2013: RMB432,000,000).

(b) Certain of the Group's bank loans and other borrowing are guaranteed by:

(i) certain of the Group's bank loans and other borrowing amounting to RMB458,136,000 were guaranteed by the Controlling Shareholder as at June 30, 2014 (December 31, 2013: RMB404,800,000);

(ii) certain of the Group's bank loans and other borrowing amounting to RMB145,803,000 were guaranteed by the Controlling Shareholder and Hexie Industrial Group as at June 30, 2014 (December 31, 2013: RMB618,578,000);

(iii) certain of the Group's bank loans amounting to RMB25,000,000 were guaranteed by the Controlling Shareholder, Hexie Industrial Group, 河南東方金沙湖國際高爾夫俱樂部有限公司 ("Henan Jinshahu Golf Club Co., Ltd."), which is controlled by the Controlling Shareholder, and Ms. Zhao Lu, who is a close family member of the Controlling Shareholder, as at June 30, 2014 (December 31, 2013: RMB25,000,000);

(iv) certain of the Group's bank loans amounting to RMB575,000,000 were guaranteed by the Controlling Shareholder and 河南和諧置業有限公司 ("Henan Hexie Property Co., Ltd."), which is controlled by the Controlling Shareholder, as at June 30, 2014 (December 31, 2013: RMB565,000,000);

(v) certain of the Group's bank loans amounting to RMB188,134,000 were secured by certain of the land use rights of Henan Hexie Property Co., Ltd. as at June 30, 2014 (December 31, 2013: RMB150,000,000); and

(vi) certain of the Group's bank loans amounting to RMB50,000,000 were guaranteed by the Controlling Shareholder, and secured by certain of the land use rights of Henan Hexie Property Co., Ltd. as at December 31, 2013.

14. TRADE AND BILLS PAYABLES

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Trade payables	89,073	51,002
Bills payable	1,449,299	1,312,881
Trade and bills payables	1,538,372	1,363,883

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

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Within 3 months	1,307,392	1,161,408
3 to 6 months	224,458	201,558
6 to 12 months	5,771	834
Over 12 months	751	83
Total	1,538,372	1,363,883

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

(a) Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB347,068,000 as at June 30, 2014 (December 31, 2013: RMB419,220,000).

(b) Certain of the Group's bills payable amounting to RMB378,291,000 were guaranteed by the Controlling Shareholder as at June 30, 2014 (December 31, 2013: RMB344,605,000).

(c) Certain of the Group's bills payable amounting to RMB93,795,000 were guaranteed by the Controlling Shareholder and Hexie Industrial Group as at June 30, 2014 (December 31, 2013: RMB85,623,000).

(d) Certain of Group's bills payable amounting to RMB145,432,000 were guaranteed by Hexie Industrial Group as at December 31, 2013.

(e) Certain of Group's bills payable amounting to RMB25,519,000 were guaranteed by the Controlling Shareholder and Henan Hexie Property Co., Ltd. as at December 31, 2013.

15. SHARE CAPITAL

Authorised:

	As at June 30, 2014 and December 31, 2013 No. of shares at HK$0.01 each
Ordinary shares	2,000,000,000

Issued and fully paid:

	As at June 30, 2014 and December 31, 2013	
	No. of shares at HK$0.01 each	Equivalent to RMB'000
Ordinary shares	1,075,126,000	8,482
Restricted shares[(i)]	19,110,898	151
	1,094,236,898	8,633

Note:

(i) Pursuant to the resolution of the board of directors of the Company on May 28, 2013, 19,110,898 restricted shares of HK$0.01 each were allotted and issued and to be converted as fully paid at par on June 13, 2013, by way of capitalisation of the sum of HK$191,000 standing to the credit of the share premium account. These restricted shares were issued for the purpose of the Company's Restricted Share Unit Scheme ("RSU Scheme") and managed by a professional trustee. For further details of the RSU Scheme, please refer to note 16 below.

16. RSU SCHEME

The Company's RSU Scheme was approved and adopted by the then shareholder on May 20, 2013 for the primary purpose of attracting skilled and experienced personnel, to incentivise them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new shares.

Under the RSU Scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. A participant in the RSU Scheme (the "RSU Participant") does not have any contingent interest in any shares underlying an RSU award unless and until such shares are actually transferred to the RSU Participant. Further, an RSU Participant may not exercise voting rights in respect of the shares underlying their RSU award and, unless otherwise specified by the board of directors of the Company in its entire discretion in the RSU grant letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares underlying an RSU award.

On May 28, 2013, RSU awards in respect of an aggregate of 19,110,898 shares, representing approximately 1.75% of the total shares issued on the date the listing of the Company's shares, had been granted, at nil consideration, to 18 RSU Participants pursuant to the RSU Scheme, of which five of the RSU Participants are Directors. All RSU awards granted pursuant to the RSU Scheme to the RSU Participants have a vesting period of four years as follows: 10% on January 2, 2014, 30% on January 2, 2015, 30% on January 2, 2016 and 30% on January 2, 2017. Each RSU awards granted pursuant to the RSU Scheme has the same terms and conditions. The grant and vesting of the RSU awards granted pursuant to the RSU Scheme are in compliance with Rule 10.08 of the Listing Rules.

On August 27, 2013, each of the five Directors of the RSU Participants agreed to, and as confirmed and approved by the board of directors, reduce the RSU awards granted to them by 62,000 units each. The aggregate amount of the RSU awards so reduced (i.e. 310,000 RSU awards) were granted to an employee of the Company. As a result of the foregoing, the total number of RSU awards granted under the RSU Scheme remains unchanged.

Pursuant to a resolution passed by the board of directors on August 27, 2013 and as confirmed by each of the RSU Participants, the vesting period in respect of the RSU awards granted is extended from four years to five years as follows: 10% on January 2, 2014, 10% on June 30, 2014, 20% on January 2, 2015, 20% on January 2, 2016, 20% on January 2, 2017 and 20% on January 2, 2018. Other than the adjustments in the number of shares underlying the RSU awards granted to certain RSU Participants as described in the previous paragraph and the duration of the vesting period, the terms of the RSU Scheme remain unchanged.

The fair value of the RSU awards granted as at the grant date was RMB82,554,000 (RMB4.32 each), of which the Group recognised a total RSU award expense of RMB13,856,000 during the six months ended June 30, 2014 (six months ended June 30, 2013: RMB2,468,000).

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period.

During the six months ended June 30, 2014, 1,878,786 RSU awards lapsed due to the resignation of certain RSU Participants. At the end of the period, the Company had 17,232,112 RSU awards outstanding under the RSU Scheme.

17. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of the Group's financial instruments as at each reporting date were as follows:

Financial assets

	Loans and receivables	
	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Trade receivables	61,558	116,777
Financial assets included in prepayments, deposits and other receivables	647,752	753,107
Amounts due from related parties	910	37,495
Structured deposits	769,500	–
Pledged bank deposits	1,041,280	741,775
Cash in transit	48,533	34,012
Cash and cash equivalents	1,460,000	1,964,365
	4,029,533	3,647,531

Financial liabilities

	Financial liabilities at amortised cost	
	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Trade and bills payables	1,538,372	1,363,883
Financial liabilities included in other payables and accruals	254,973	224,912
Bank loans and other borrowings	3,030,643	2,720,285
	4,823,988	4,309,080

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, cash in transit, pledged bank deposits, structured deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which are also approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at June 30, 2014 was assessed to be insignificant.

At the end of the period, neither the Group nor the Company had any financial asset or liability measured at fair value (December 31, 2013: Nil).

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (December 31, 2013: Nil).

19. BUSINESS COMBINATION

In February 2014, the Group acquired a 100% interest in Shanghai Goocar Pre-owned Automobile Co., Ltd. ("Shanghai Goocar") from a third party. Shanghai Goocar is engaged in the sale of pre-owned motor vehicles. The acquisition was made as part of the Group's strategy to expand its market of pre-owned motor vehicles in Mainland China. The purchase consideration for the acquisition was in the form of cash, with RMB4,758,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Shanghai Goocar as at the date of acquisition were as follows:

	Fair value recognised RMB'000
Intangible assets	500
Inventories	4,258
Total identifiable net assets at fair value	4,758
Satisfied by: Cash	4,758

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(4,758)
Cash and bank balances acquired	–
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(4,758)

20. CONTINGENT LIABILITIES

As at June 30, 2014, neither the Group nor the Company had any significant contingent liabilities.

21. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of land use rights and property and equipment outstanding at each reporting date not provided for these financial statements are as follows:

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Contracted, but not provided for land use rights and buildings	180,489	126,514

(b) Operating lease commitments

At each reporting date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	June 30, 2014 Unaudited		December 31, 2013 Audited	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within one year	54,321	15,641	47,738	12,666
In the second to fifth years, inclusive	167,252	63,344	161,529	59,495
After five years	107,393	222,386	115,265	223,399
	328,966	301,371	324,532	295,560

The Group is the lessee in respect of a number of properties and land held under operating leases. The leases typically run for an initial period of one to thirty years, with an option to renew the leases when all the terms are renegotiated.

22. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Feng Changge is the Controlling Shareholder of the Group and is also considered to be a related party of the Group.

In addition to the disclosures in note 4, note 12, note 13 and note 14 to the financial statements, the Group had the following transactions and balances with related parties during the period:

(a) Balances with related parties

The Group had the following significant balances with its related parties as at June 30, 2014 and December 31, 2013, respectively.

Due from related parties:

	June 30, 2014 Unaudited RMB'000	December 31, 2013 Audited RMB'000
Non-trade related:		
The Controlling Shareholder		
– Mr. Feng Changge	**–**	36,585
An associate		
– 鄭州永達和諧汽車銷售服務有限公司 (Zhengzhou Yongda Hexie Automobiles Sales & Service Co., Ltd.)	**910**	910
	910	37,495

Except for the loans the Group granted to the Controlling Shareholder before the Company's Listing, which bore an annual interest rate of 15% during the six months ended June 30, 2013, other balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

22. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Compensation of key management personnel of the Group

	For the six months ended June 30, 2014 Unaudited RMB'000	For the six months ended June 30, 2013 Unaudited RMB'000
Short term employee benefits	**2,514**	2,310
Equity-settled share award expense	**13,856**	2,468
Post-employee benefits	**120**	80
Total compensation paid to key management personnel	**16,490**	4,858