HARMONY AUTO
和諧汽車

China Harmony Auto Holding Limited
中國和諧汽車控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 03836)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2014

HIGHLIGHTS:

- Our revenue for the year ended December 31, 2014 amounted to approximately RMB10,195.9 million, representing an increase of 22.4% from approximately RMB8,332.7 million recorded in the corresponding period in 2013.
- Our gross profit for the year ended December 31, 2014 amounted to approximately RMB1,089.3 million, representing an increase of 9.2% from approximately RMB997.1 million recorded in the corresponding period in 2013.
- Our net profit for the year ended December 31, 2014 amounted to approximately RMB545.7 million, representing an increase of 34.0% from approximately RMB407.1 million recorded in the corresponding period in 2013.
- Basic and diluted earnings per share for the year ended December 31, 2014 were RMB0.51 and RMB0.50, respectively.
- Proposed a final dividend of HK10 cents per ordinary share.

ANNUAL RESULTS

The board of directors (the "**Board**") of China Harmony Auto Holding Limited (the "**Company**" or "**We**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended December 31, 2014. The audited consolidated results have been reviewed by the audit committee of the Company.

Consolidated Statement of Profit or Loss

		Year ended December 31,	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4(a)*	**10,195,890**	8,332,749
Cost of sales and services	*5(b)*	**(9,106,560)**	(7,335,607)
Gross profit		**1,089,330**	997,142
Other income and gains, net	*4(b)*	**474,072**	303,160
Selling and distribution expenses		**(515,668)**	(426,408)
Administrative expenses		**(124,097)**	(117,584)
Profit from operations		**923,637**	756,310
Finance costs	*6*	**(202,199)**	(194,839)
Share of profit of an associate		**4,916**	501
Profit before tax	*5*	**726,354**	561,972
Income tax expense	*7*	**(180,650)**	(154,847)
Profit for the year		**545,704**	407,125
Attributable to:			
Owners of the parent		**544,365**	404,135
Non-controlling interests		**1,339**	2,990
		545,704	407,125
Earnings per share attributable to ordinary equity holders of the parent	*9*		
Basic (RMB)		**0.51**	0.42
Diluted (RMB)		**0.50**	0.42

Consolidated Statement of Comprehensive Income

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**545,704**	407,125
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(575)**	1,311
Other comprehensive income for the year, net of tax	**(575)**	1,311
Total comprehensive income for the year, net of tax	**545,129**	408,436
Attributable to:		
Owners of the parent	**543,790**	405,446
Non-controlling interests	**1,339**	2,990
	545,129	408,436

Consolidated Statement of Financial Position

	Notes	As at December 31, 2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,600,526**	1,722,102
Land use rights		**12,697**	13,097
Intangible assets		**5,376**	4,381
Prepayments		**81,374**	104,444
Investment in an associate		**11,439**	6,523
Deferred tax assets		**26,608**	17,338
Total non-current assets		**2,738,020**	1,867,885
CURRENT ASSETS			
Inventories	*10*	**1,486,540**	1,526,794
Trade receivables	*11*	**73,894**	116,777
Prepayments, deposits and other receivables		**1,425,045**	1,319,910
Amounts due from related parties		**294**	37,495
Structured deposits		**869,500**	–
Pledged bank deposits		**550,978**	741,775
Cash in transit		**33,226**	34,012
Cash and cash equivalents		**1,041,080**	1,964,365
Total current assets		**5,480,557**	5,741,128
CURRENT LIABILITIES			
Bank loans and other borrowings		**3,028,764**	2,672,045
Trade and bills payables	*12*	**877,921**	1,363,883
Other payables and accruals		**955,764**	937,299
Income tax payable		**491,930**	338,152
Total current liabilities		**5,354,379**	5,311,379
NET CURRENT ASSETS		**126,178**	429,749
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,864,198**	2,297,634
NON-CURRENT LIABILITIES			
Bank loans and other borrowings		**102,308**	48,240
Deferred tax liabilities		**16,127**	12,274
Total non-current liabilities		**118,435**	60,514
NET ASSETS		**2,745,763**	2,237,120
EQUITY			
Equity attributable to owners of the parent			
Share capital		**8,633**	8,633
Reserves		**2,615,115**	2,144,965
Proposed final dividend	*8*	**102,405**	67,251
		2,726,153	2,220,849
Non-controlling interests		**19,610**	16,271
Total equity		**2,745,763**	2,237,120

1. GENERAL INFORMATION

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 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").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK (IFRIC)-Int 21	*Levies*
Amendments to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendments to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendments to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendments to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective HKFRSs*

[1] Effective from 1 July 2014

The adoption of these revised HKFRSs has had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale 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 was 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 year, 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.

	2014	2013
	RMB'000	*RMB'000*
Revenue from the sale of motor vehicles	**8,946,621**	7,609,854
Others	**1,249,269**	722,895
	10,195,890	8,332,749

(b) Other income and gains, net:

		2014	2013
	Notes	***RMB'000***	*RMB'000*
Commission income		**228,471**	161,587
Advertisement support received from motor vehicle manufacturers		**11,364**	7,814
Bank interest income		**62,247**	38,372
Interest income from the Controlling Shareholder	*(i)*	**–**	66,077
Interest income from loans to third parties		**70,541**	7,511
Government grants	*(ii)*	**52,353**	26
Penalty income from cancellation of a potential acquisition contract		**15,835**	–
Others		**33,261**	21,773
Total		**474,072**	303,160

(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 year ended December 31, 2013.

(ii) Various government grants have been received for the encouragement of the Company's Listing. There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

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

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

	2014	2013
	RMB'000	*RMB'000*
Wages and salaries	**208,282**	125,539
Equity-settled share award expense	**28,765**	23,848
Other welfare	**32,792**	23,238
	269,839	172,625

(b) Cost of sales and services:

	2014	2013
	RMB'000	*RMB'000*
Cost of sales of motor vehicles	**8,429,209**	6,944,839
Others*	**677,351**	390,768
	9,106,560	7,335,607

* There were employee benefit expenses of RMB53,081,000 (2013: RMB24,235,000) included in the cost of sales and services.

(c) Other items:

	2014	2013
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**109,392**	73,984
Amortisation of land use rights	**400**	400
Amortisation of intangible assets	**775**	720
Auditors' remuneration	**3,988**	3,671
Advertisement and business promotion expenses	**71,822**	103,435
Bank charges	**13,045**	9,650
Lease expenses	**70,040**	46,454
Logistics and petroleum expenses	**26,534**	25,495
Office expenses	**11,207**	10,880
Net loss on disposal of items of property, plant and equipment	**8,783**	6,810
Foreign exchange differences, net	**(14)**	425

6. FINANCE COSTS

	2014	2013
	RMB'000	*RMB'000*
Interest expense on bank borrowings wholly repayable within five years	**195,881**	197,776
Interest expense on other borrowings	**23,857**	27,628
Less: Interest capitalised	**(17,539)**	(30,565)
	202,199	194,839

7. INCOME TAX

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

	2014	2013
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**186,067**	154,748
Deferred tax	**(5,417)**	99
	180,650	154,847

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% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

	2014	2013
	RMB'000	*RMB'000*
Proposed final – HK10 cents (2013: HK8 cents) per ordinary share	**102,405**	67,251

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The calculation of the proposed final dividend for the year ended December 31, 2014 is based on the proposed final dividend per ordinary share and the total number of ordinary shares as at this announcement date.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the share award scheme.

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

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

Earnings

	2014	2013
	RMB'000	*RMB'000*
Profit for the year attributable to ordinary equity holders of the parent	**544,365**	404,135

Shares

	2014	2013
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,075,126,000**	952,261,512
Effect of dilution – weighted average number of ordinary shares:		
– Restricted shares	**11,736,000**	637,966
	1,086,862,000	952,899,478

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended December 31, 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

	2014	2013
	RMB'000	*RMB'000*
Motor vehicles	**1,355,292**	1,441,076
Spare parts and accessories	**131,248**	85,718
	1,486,540	1,526,794

At December 31, 2014, certain of the Group's inventories with an aggregate carrying amount of approximately RMB560,245,000 (2013: RMB432,000,000) were pledged as security for the Group's bank loans and other borrowings.

At December 31, 2014, certain of the Group's inventories with an aggregate carrying amount of approximately RMB296,964,000 (2013: RMB419,220,000) were pledged as security for the Group's bills payable.

11. TRADE RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**73,894**	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.

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

	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**66,364**	112,794
More than 3 months but less than 1 year	**7,530**	3,983
	73,894	116,777

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

	2014	2013
	RMB'000	*RMB'000*
Neither past due nor impaired	**73,894**	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. TRADE AND BILLS PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**130,325**	51,002
Bills payable	**747,596**	1,312,881
Trade and bills payables	**877,921**	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:

	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**807,222**	1,161,408
3 to 6 months	**58,071**	201,558
6 to 12 months	**11,831**	834
Over 12 months	**797**	83
	877,921	1,363,883

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2014, with its structural adjustment continuously optimizing, China's overall economy remained sound and healthy and has been showing a generally positive development momentum. According to the data released by the National Bureau of Statistics, China's gross domestic product (GDP) for 2014 reached RMB63.6 trillion, representing a year-on-year increase of 7.4%, outperforming all other major economies in the world.

Looking back to China's automobile market in 2014, China remained the largest automobile market (in terms of total number of cars sold) in the world, surpassing the United States. Its sales of luxury vehicles were close to that of the United States year by year. In particular, sales of BMW were 455,000 units, representing a 16.7% increase over the previous year; sales of Land Rover and Jaguar were 122,000 units, representing a 28.1% increase over the previous year; sales of Lexus were 85,000 units, representing a 15% increase over the previous year.

BUSINESS OVERVIEW

In view of the fundamentals of steady growth achieved by China's luxury and ultra-luxury automobile markets as well as the fact that the domestic automobile market is in the process of upgrading and transformation, the Group will continue to implement its six development strategies, namely steady development strategy for 4S outlets, proactive development strategy for comprehensive after-sales services, proactive development strategy for community chain business featuring quick repair and insurance services, development strategy for parallel imports of automobiles, innovative development strategy for high value-added business and proactive development strategy for new energy vehicles. We believe that the Company will achieve a new milestone with further expansion of its business.

The Group further deepened its internal restructuring while maintaining steady development, and has made significant progress during the year. Currently, the Group has a total of 89 sales and after-sales outlets of luxury and ultra-luxury vehicles, of which 46 outlets are 4S stores and 43 outlets (including 8 new energy vehicles service outlets) are 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, Volvo, Infiniti, Lincoln and Zinoro.

Our Six Development Strategies

1. Steady Development Strategy for 4S Outlets

The Group has always focused on quality and profitability rather than reckless expansion in scale so as to maximize the interests of shareholders. The Group has formulated seven unique strategies for developing and establishing its network in order to lay a solid foundation for the development and profit growth of the Company:

1) adhere to sales of luxury and ultra-luxury brands;

2) adhere to develop the market for luxury brands in the central-western regions and establish a monopoly and dominant position in certain regions, so as to ensure profitability and quality;

3) adhere to develop the market for ultra-luxury brands in the first-tier cities and economically developed eastern coastal regions, thereby gradually form our monopoly and dominant position;

4) adhere to maintain outlets at prime locations of core cities;

5) adhere to a light-asset and highly efficient business model;

6) vigorously explore auxiliary business of 4S stores and related after-sales business; and

7) focus on quality and profitability rather than reckless expansion in scale.

2. Proactive Development Strategy for Comprehensive After-sales Services

With reference to internationally accepted practices and our experiences through practical operation, the Group has established its own operation model of "Harmony Comprehensive after-sales", which comprises the following aspects:

1) to cooperate with leading insurance companies on vehicles damaged in accidents in all aspects;

2) to extend maintenance and repair services for customers whose luxury and/or ultra-luxury vehicles are out of warranty period;

3) to provide maintenance and repair services for parallel imported vehicles and to make delivery of new vehicles to customers;

4) to guide online customers to experience services offline through cooperation with Internet platforms;

5) to cooperate with new energy vehicle manufacturers for delivery of new vehicles and provision of after-sales services; and

6) to provide man-hour service in cooperation with automobile parts suppliers.

3. Proactive Development Strategy for Community Chain Business Featuring Quick Repair and Insurance Services

As the comprehensive after-sales services network has reached maturity, the Group will establish quick repair and insurance services outlets in communities where our targeted customers are concentrated in order to offer more convenient and regulated vehicle maintenance and insurance services by leveraging our comprehensive after-sales services centers widely present in each city. We adopt the business strategies of setting comprehensive after-sales services outlets as parent stores with community outlets serving as satellite stores and mobile stores covering the neighbourhood, as well as a combination of online and offline operations approaches to furnish our customer with more convenient and standardized automobile repair and insurance services so as to further increase our bonding with customers and enhance the awareness of the brand "China Harmony", and further strengthen our dominant position and competitiveness. We firmly believe that those who are closer to customers will be better able to secure the customers and finally the market.

4. Parallel Imports of Vehicles

As the PRC Government has lifted the restrictions on parallel import of vehicles in Free Trade Zones, there is an additional sales channel other than the 4S stores in distribution of parallel imported cars. The Company has been accredited as one of the first few pilot enterprises to sell parallel imported cars within the Shanghai Free Trade Zone with the approval of Shanghai Municipal Commission of Commerce and Shanghai Free Trade Zone Administration. The Company will conduct online marketing and offline delivery of vehicles through its physical outlets. It is difficult to conclude a transaction through online platform alone as vehicles are sophisticated bulk commodities. Customers must inspect and experience the vehicle in person, obtain hire-purchase financing, conduct Pre Delivery Inspection (PDI) and receive delivery of their cars and enjoy after-sales services through physical stores. We have entered into cooperation with tmall.com, jd.com, suning.com and other internet platforms to facilitate conduct of parallel imports of automobiles business through our physical outlets, which will mainly involve:

1) sales of new cars: to place orders online and make delivery of cars off-line at physical outlets;

2) after-sales services: to use our existing network to provide after-sales maintenance, warranty and repair services;

3) insurance and financing: to provide customers with comprehensive insurance and warranty services as well as hire-purchase financing; and

4) car modification: to provide customized car modification services according to customers' specific requirements, primarily modification of the exterior appearance and interior finishing and installation of options to enhance overall comfortability and manoeuvrability.

5. Innovative Development Strategy for High Value-added Business

The Company utilizes its existing outlets to consolidate the customer base of 300,000 high-end customers and to innovate and develop high value-added business. For example, the intelligent aerial photography drone developed in cooperation with Shenzhen Dajiang Innovations Technology Co., Ltd, and cooperation with high-end smartphone manufacturer for tailor made high-tech products and services. We endeavour to foster a high-end industry ecosystem by taking advantage of our high-end platform and customer resources. These innovative high value-added businesses will become our new businesses and profit growth drivers.

6. Proactive Development Strategy for New Energy Vehicles

New energy vehicle will be the future direction of global automobile development and also a revolution of the traditional automobile industry, and this revolution has already taken place. The Group has seized this opportunity to proactively integrate resources to support the development of new energy vehicle business:

1) we have entered into all-round after-sales collaboration with Tesla Motors, Inc. for plate work and paint spraying, and have currently opened eight service outlets;

2) on December 22, 2014, Hon Hai Group (through its wholly-owned subsidiary) subscribed for 128,734,000 shares in the Company, representing approximately 10% of the total issued share capital of the Company, with a view to build a strategic relationship to cooperate with the Group in exploring the business of new energy vehicles. The subscription was completed on March 2, 2015. The aggregate gross proceed of the subscription is HK$608,911,820 and the proceeds is intended for use in the new energy vehicle business;

3) on March 23, 2015, the Company entered into a strategic cooperation framework agreement in respect of "internet + intelligent electric car" with Tencent and Foxconn Technology Group, to actively explore innovative cooperation on the project of internet + intelligent electric car in Zhengzhou, Henan Province. In response to the internet and intelligent trend of the global automobiles industry, the three parties to the agreement will form a joint professional work team to create efficient and convenient, energy efficient, safe and reliable internet + intelligent electric cars with Tencent's insight into the internet industry and leading internet-based open platform for innovation, combined with Foxconn's design and manufacturing expertise in innovating and integrating high-tech mobile terminals and intelligent electric vehicles. Moreover, the parties will jointly introduce a feasible business model of internet + intelligent electric car to tap on the Company's leading position in marketing and services of high-end automobiles. Tencent, Foxconn Technology Group and the Company will jointly innovate business model and products through combination of software and hardware resources and integrate virtual and physical outlets so as to complement their respective advantages in their own fields. They will conduct research and development of new-generation network-based intelligent electric cars in full scale for the purpose of improving the environment, the eco-system and the industrial chain;

4) under the strategic cooperation framework for "internet + intelligent electric car", the Company will cooperate with Tencent and Foxconn Technology Group in "internet + other aspects"; and

5) on December 30, 2014, the Company entered into a letter of intent in respect of the proposed acquisition of shares in Zhejiang Green Field Motor Co., Ltd., which is one of the leading manufacturers of new energy electric vehicles in the PRC. This acquisition has not been completed as at the date of this announcement.

We believe that technology-based internet electric vehicles are not only a revolution to traditional vehicles, but also to the manufacturing mode, manoeuvrability as well as business model. This will provide an opportunity for China's automobile industry to overtake its competitors. New energy vehicles are bound to become a brand new industry which is expected to sustain its boom in China.

FINANCIAL OVERVIEW

Revenue

Our revenue for 2014 was RMB10,195.9 million, representing an increase of 22.4% from RMB8,332.7 million in 2013. This increase was primarily attributable to an increase in revenue from sales of new passenger vehicles and after-sales service revenue of 4S outlets and comprehensive after-sales outlets.

Revenue from sales of new passenger vehicles increased by 17.6% from RMB7,609.8 million in 2013 to RMB8,946.6 million in 2014, accounting for 87.7% of the revenue. Such growth in sales of new passenger vehicles were mainly attributable to an 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. In 2014, the Group's sales of new vehicles was 20,308 units, representing an increase of 4,360 units or 27.3% as compared with 15,948 units for 2013. Sales of luxury and ultra-luxury passenger vehicles in 2014 were 19,442 units and 866 units respectively, up by 24.4% and 168.9% respectively as compared with that in 2013. In 2014, revenue derived from sales of luxury and ultra-luxury passenger vehicles amounted to RMB7,724.5 million and RMB1,222.1 million, respectively, accounting for 86.3% and 13.7% of the revenue from sales of new vehicles and representing an increase of 13.6% and 50.9% as compared with RMB6,799.8 million and RMB810.0 million in 2013.

In 2014, our after-sales services revenue grew significantly due to the increasing maturity of our 4S outlets and the commencement of operation of our comprehensive after-sales services from late 2013. Revenue from after-sales services amounted to RMB1,249.3 million in 2014, representing an increase of 72.8% as compared with that for 2013. Our after-sales services revenue as a percentage of the total revenue increased from 8.7% in 2013 to 12.3% in 2014. In particular, revenue from after-sales services generated by our 4S outlets increased to RMB966.4 million in 2014, representing an increase of 35.5% as compared with RMB713.2 million in 2013. Such increase was attributable to the increasing maturity of our outlets developed during earlier periods and the demand for after-sales services brought by a growing customer base. Since the fourth quarter of 2013, we have opened 43 comprehensive after-sales service outlets that serve as high-end maintenance workshops specializing in after-sales services, premium accessories installation, and car insurance services for luxury and ultra-luxury passenger vehicles. As a result of the robust growth in revenue following our quick penetration into the enormous luxury and ultra-luxury passenger vehicles market, our comprehensive after-sales services outlets contributed after-sales service revenue of RMB282.9 million in 2014, accounting for 22.6% of the revenue from our after-sales services in 2014. Looking into the near future, we believe that the fast-growing business of the comprehensive after-sales services outlets, which are in operation or will soon commence operation, will make greater contribution to the growth of our after-sales services and generate solid profits for us.

Cost of sales and services

Our cost of sales and services increased by 24.1% from RMB7,335.6 million in 2013 to RMB9,106.6 million in 2014 which is largely in line with the increase in our revenue. Cost of sales attributable to sales of new passenger vehicles increased by 21.4% from RMB6,944.8 million in 2013 to RMB8,429.2 million in 2014. Cost of sales attributable to after-sales services increased by 73.3% from RMB390.8 million in 2013 to RMB677.4 million in 2014.

Gross profit and gross profit margin

Our gross profit increased by RMB92.2 million or 9.2% to RMB1,089.3 million in 2014 from RMB997.1 million in 2013. Our gross profit margin for 2014 slightly decreased to 10.7% from 12.0% in 2013.

Our gross profit from sales of new passenger vehicles for 2014 was RMB517.4 million (2013: RMB665.0 million). In 2014, the gross profit margin for sales of new passenger vehicles was 5.8% (2013: 8.7%). The decrease in gross profit margin was mainly attributable to the overall sluggish performance of the automobile market in 2014, which pushed the inventory index upward. In order to speed up the turnover of our inventories and reduce inventory level, the Group has taken various measures, such as providing customers with discounts, promotional packages and free gifts, leading to a lower gross profit margin for sales of new vehicles.

Our gross profit from after-sales services surged by 72.2% from RMB332.1 million in 2013 to RMB571.9 million in 2014. Our gross profit from after-sales services as a percentage of our total gross profit increased to 52.5% in 2014 from 33.3% in 2013. With a growing customer base attributable to our maturing 4S outlets and an expanding market share, gross profit from after-sales services provided by our 4S outlets increased by 35.3% from RMB327.9 million in 2013 to RMB443.6 million in 2014. Our network of newly opened comprehensive after-sales services outlets contributed RMB128.3 million to our after-sales gross profit in 2014, which accounted for 22.4% of the total gross profit from after-sales services. The gross profit margin of after-sales services was 45.8% in 2014, almost the same as 2013 (2013: 45.9%).

Selling and administrative expenses

Our selling and administrative expenses increased by 17.6% to RMB639.8 million in 2014 from RMB544.0 million in 2013. The selling and administrative expenses in 2014 included non-cash charge of RMB28.8 million in respect of equity-settled share award and depreciation and amortization expenses of RMB110.6 million (2013: RMB23.8 million and RMB75.1 million). Excluding the aforesaid factors, selling and administrative expenses increased by 12.4% as compared with last year, which was lower than the growth rate of revenue of 22.4%. In particular, the cash-settled selling and administrative expenses as a percentage of our revenue decreased by 0.4%, primarily due to the fact that (i) the Group implemented strict control over administrative expenses, and practiced economy by reducing travel, entertainment and office expenses; (ii) the Group integrated the services provided by different advertisement services providers for conducting 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

In 2014, our other income and gains, net was RMB474.1 million, up by 100.0% as compared with RMB237.1 million in 2013 (excluding interest income from the Controlling Shareholder), and the increase was primarily due to:

- the commission income for 2014 was RMB228.5 million, representing an increase of 41.4% as compared with RMB161.6 million in 2013. The significant increase was primarily attributable to (i) increase in sales of new passenger vehicles; (ii) as compared with cash payment, more new passenger vehicles were purchased using the financing services provided by manufacturers, which led to higher financing coverage; (iii) more and more customers used the insurance and extended insurance services we recommended when purchasing new passenger vehicles; (iv) the proportion of new vehicles adopting installation of premium accessories was on the rise to satisfy 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 62.0% increase in bank interest income from RMB38.4 million in 2013 to RMB62.2 million in 2014, primarily attributable to the increase in our bank deposits.

Profit for the year

Owing to the reasons discussed above, our profit for 2014 amounted to RMB545.7 million, representing a 34.0% increase from RMB407.1 million in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Our cash was primarily used to finance 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 financed our liquidity needs through a combination of bank loans and other borrowings and cash flows generated from our operating activities.

Our net cash generated from operating activities was RMB362.5 million and RMB260.6 million in 2014 and 2013, respectively. Net cash used in investing activities was RMB440.9 million and RMB1,450.6 million in 2014 and 2013, respectively. Net cash generated from financing activities was RMB125.8 million and RMB1,629.9 million (including the net proceeds of RMB1,202.8 million from the Global Offering) in 2014 and 2013, respectively.

Taking into account our existing cash and cash equivalents, anticipated cash flow from our operating activities, available bank facilities and other borrowings and issuances of new shares in 2015, the Board believes that our liquidity needs can be satisfied.

Net current assets

As at December 31, 2014, we had net current assets of RMB126.2 million, as compared with net current assets of RMB429.7 million as at December 31, 2013.

Capital expenditure

Our capital expenditure (which was primarily for purchase of items of property, plant and equipment in connection with establishment of new outlets) was RMB1,066.9 million for the year ended December 31, 2014, as compared with RMB693.4 million for the year ended December 31, 2013.

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 the sales policy of each outlet is subject to guidance from the business department of our headquarters, and a monthly report is submitted by each outlet to our headquarters for review.

Our inventories decreased by RMB40.3 million or 2.6% from RMB1,526.8 million as at December 31, 2013 to RMB1,486.5 million as at December 31, 2014, primarily due to a decrease in our inventory of new passenger vehicles by 6.0% from RMB1,441.1 million as at December 31, 2013 to RMB1,355.3 million as at December 31, 2014. Slow-moving inventories of vehicles were reduced as our management had an accurate judgment about the expected demand from the passenger vehicle market, implemented a precautionary inventory control system, and strengthened promotional efforts at the beginning of the year and formulated appropriate promotional and marketing plans and relevant measures based on market conditions. In addition, we also consolidated inventory management within the Group, optimized our inventory mix and improved the efficiency of goods allocation among outlets, which in turn contributed to reduction in inventories.

Our average inventory turnover days in 2014 were 60 days, a slight increase from 55 days in 2013, which was mainly attributable to the large opening balance of inventories at the beginning of 2014 (as the Group opened more 4S outlets in the fourth quarter of 2013, resulting in a build up of inventory at the end of 2013 and at the beginning of 2014). Based on the closing balance of our inventories at the end of the period, our inventory turnover days in 2014 were 59 days, representing a dramatic decrease of approximately 16 days as compared with 2013 (2013: 75 days). The decrease was mainly due to the above mentioned measures taken by our management in 2014 to gradually dispose of and reduce our complete vehicles inventory and bulk inventories of vehicles, optimized our inventory mix, which in turn enhanced the utilisation efficiency of our inventories and capital.

Bank loans and other borrowings

As at December 31, 2014, we had bank loans and other borrowings in the aggregate amount of RMB3,131.1 million, as compared with RMB2,720.3 million as at December 31, 2013. The table below sets forth a breakdown of our bank loans and other borrowings as at the indicated dates:

	December 31, 2014 *RMB'000*	December 31, 2013 *RMB'000*
Bank loans repayable:		
Within one year or on demand	**2,471,014**	1,951,447
In the second year	**33,138**	15,360
In the third to fifth year	**69,170**	32,880
	2,573,322	1,999,687
Other borrowings repayable:		
Within one year or on demand	**557,750**	720,598
Total	**3,131,072**	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 52.8% (2013: 57.9%) as at December 31, 2014.

As at December 31, 2014, our bank loans and other borrowings amounting to RMB1,365.3 million were secured by mortgages or pledges over our assets. Our assets subject to these mortgages or pledges as at December 31, 2014 consisted of (i) inventories in the amount of RMB560.2 million; (ii) property, plant and equipment in the amount of RMB34.2 million; and (iii) land use rights in the amount of RMB12.7 million. In addition, our bank loans and other borrowings amounting to RMB1,191.0 million were guaranteed by the Controlling Shareholder or affiliates of the Controlling Shareholder.

Contingent liabilities

As at December 31, 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 bear floating interest rates that are mostly linked to the benchmark rates of the People's Bank of China. Increase in interest rate could result in an increase in our cost of borrowing. If this occurs, it will 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 December 31, 2014, the Group had a total of 3,476 employees (December 31, 2013: 2,584 employees). Relevant staff cost in 2014 was approximately RMB322.9 million (including employee share incentive of RMB28.8 million), while our staff cost was approximately RMB196.9 million (including employee share incentive of RMB23.8 million) in 2013. Pursuant to the restricted share unit scheme ("**RSU Scheme**") adopted by the Company in May 2013 and amended by the Board with the consent from each RSU Scheme participant in August 2013, a total of 19,110,898 share underlying the RSU Scheme, of which 1,878,786 shares has lapsed as at December 31, 2014, granted to several directors, senior management members and employees of the Group, three of which are existing Directors. No RSU awards have been vested to any RSU Scheme participant for the year ended December 31, 2014. Please refer to the 2014 annual report of the Company, which will be issued in due course, for further details of the RSU Scheme. 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.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

For year ended December 31, 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK10 cents per ordinary share for the year ended December 31, 2014, subject to the approval of such final dividend by the shareholders at the forthcoming annual general meeting.

Details in relation to the closure of register of members of the Company for the purpose of determining members who are qualified for the proposed final dividend will be announced separately.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the reporting period, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2014.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the Listing Rules and the CG Code. As at the date of this announcement, the Audit Committee consists of three members, namely Mr. Xiao Changnian, Mr. Liu Zhangmin and Mr. Xue Guoping, all of whom are independent non-executive directors of the Company. Mr. Xiao Changnian is the chairman of the Audit Committee.

The Audit Committee has reviewed the annual results for the year ended December 31, 2014.

ANNUAL GENERAL MEETING

The 2015 annual general meeting of the Company is scheduled to be held on May 8, 2015 (the "**2015 AGM**"). A notice convening the 2015 AGM with details of the relevant closure of register of members for determining the entitlement of the shareholders to attend and vote at the 2015 AGM (if applicable) will be issued and disseminated to shareholders of the Company in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and that of the Company (http://www.hexieauto.com). The annual report will be dispatched to the shareholders and will be available on the website of the Stock Exchange and that of the Company in due course.

By Order of the Board
CHINA HARMONY AUTO HOLDING LIMITED
Feng Changge
Chairman and Executive Director

PRC, March 26, 2015

As at the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Yu Feng, Mr. Yang Lei, Mr. Cui Ke and Ms. Ma Lintao, the non-executive director of the Company is Mr. Wang Nengguang, and the independent non-executive directors of the Company are Mr. Xiao Changnian, Mr. Liu Zhangmin and Mr. Xue Guoping.