



和諧汽車
HARMONY AUTO

China Harmony New Energy Auto Holding Limited

中國和諧新能源汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3836

2017 | Interim Report



Table of Contents

Corporate Information	2
Chairman’s Statement	4
Financial Highlights	5
Industry Overview	6
Business Overview	7
Financial Overview	12
Corporate Governance and Other Information	18
Unaudited Financial Statements	25



Corporate Information

Board of Directors

Executive Directors

Mr. FENG Changge (*Chairman*)
Mr. LIU Fenglei
Mr. YANG Lei
Mr. Qian Yewen
(*resigned on 31 August 2017*)
Ms. MA Lintao
Ms. FENG Guo
(*appointed on 31 August 2017*)

Non-executive Director

Mr. FAN Qihui

Independent Non-executive Directors

Mr. XIAO Changnian
Mr. LIU Zhangmin
Mr. XUE Guoping

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

Company Secretary

Ms. WONG Wai Ling

Authorized Representatives

Mr. YANG Lei
Ms. WONG Wai Ling

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, Tower A, World Trade Center Building
Shangwunehuan Road
CBD Zhengdongxin District
Zhengzhou, Henan Province
PRC

Principal Place of Business in Hong Kong

18/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Corporate Information

Cayman Islands Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. 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

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 New Energy 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 2017.

In the first half of 2017, the Group focused on the growth of its operational scale and sales of new vehicles, and continued to develop new energy vehicles. As a result, the Group achieved fruitful results during the six months ended 30 June 2017:

- Sales volume of new vehicles of the Group amounted to 11,662 units, representing an increase of 8.9% as compared with the same period of 2016.
- Revenue of the Group amounted to approximately RMB5,085.2 million, representing an increase of 3.2% as compared with the same period of 2016, of which revenue from sales of new vehicles amounted to RMB4,314.5 million, representing an increase of 7.6% as compared with the same period of 2016.
- Profit for the period of the Group attributable to owners of the parent was approximately RMB564.7 million, representing an increase of 84.5% as compared with the same period of 2016. Among which, profit contributed by 4S outlets business amounted to RMB270.9 million, after taking into account the headquarters expenses of the Group, representing an increase of 22.0% as compared with the same period of 2016, while the net gain contributed by comprehensive after-sales business and intelligent internet electric vehicles company of Future Mobility Corporation Limited ("FMC") amounted to RMB36.2 million and RMB253.3 million, respectively.
- Basic and diluted earnings per share were RMB0.37 and RMB0.37, respectively, representing an increase of 85.0% and 85.0% as compared with the same period of 2016, respectively.

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all of our staff for making the achievement of the first half of 2017 possible. I would also like to thank our shareholders and business partners for their support. With constant effort and desire for excellence, we will strive to continue to deliver fruitful results and remarkable return to our shareholders.

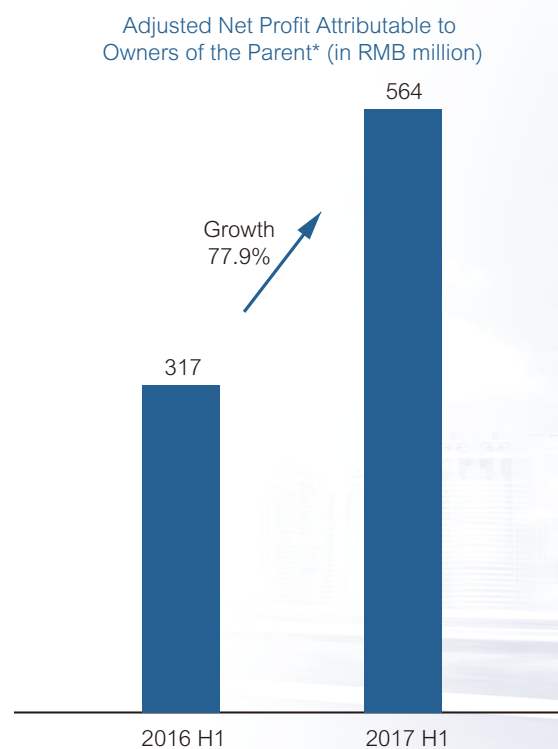
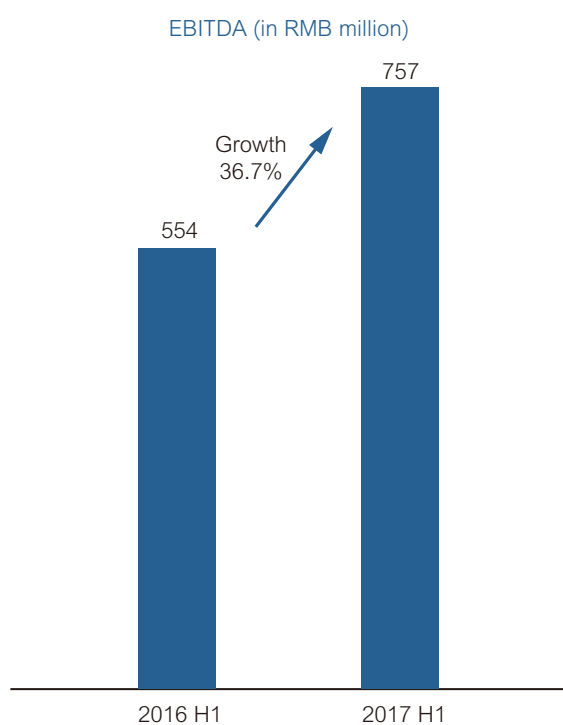
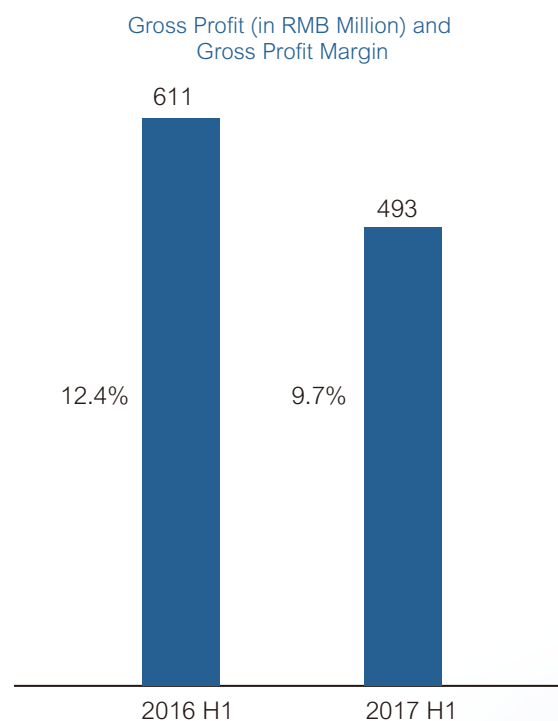
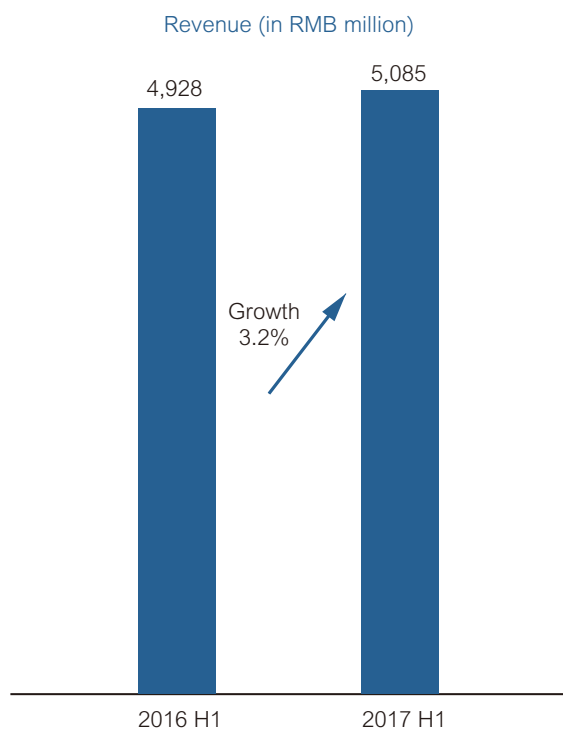
FENG Changge

Chairman of the Board

24 August 2017



Financial Highlights



* Excluding the expenses of restricted share unit scheme and share option scheme

Industry Overview

In the first half of 2017, China's automobile industry saw a stable growth in sales. According to China Association of Automobile Manufacturers, sales volume of passenger vehicles reached 11.253 million units in China in the first half of 2017, representing an increase of 1.6% as compared with the same period of 2016. Motivated by the upward trend of per capita disposable income, the upgrade of consumption and the rising consumption in inland cities, the growth in sales volume of luxury vehicles was significantly higher than the overall growth of passenger vehicles. In the first half of 2017, 12 luxury and ultra-luxury vehicle brands in China reached a sales volume of 1.206 million units, representing a year-on-year increase of 18.4%. Among all major vehicle brands under the Group's dealership, BMW, Maserati, Lexus, Jaguar Land Rover and Volvo recorded a year-on-year increase of 18.4%, 110.4%, 31.0%, 26.2% and 27.6% in China for the first half of 2017, respectively.

New energy vehicle sales in China continued to maintain rapid growth. Statistics of China Association of Automobile Manufacturers showed that sales of new energy vehicles in China reached 195,000 units in the first half of 2017, representing a year-on-year increase of 14.4%. Among which, sales volume of pure electric vehicles reached 160,000 units, representing a year-on-year increase of 26.2%.

With the sustained growth of potential of the automobile market in China, vehicle ownership maintained a rapidly growing trend. According to the Traffic Management Bureau of the Ministry of Public Security, as at the end of June 2017, vehicle ownership totaled 205 million units and the number of motorists was 328 million individuals in China. In the first half of 2017, the number of newly-registered vehicles reached 13.22 million units. The Group believes that the rapid growth in vehicle ownership will further boost the development of the automobile after-sale services market.



Business Overview

In the first half of 2017, the Group achieved fruitful results in sectors such as dealership business, comprehensive after-sales services and new energy vehicles.

Accelerated Expansion of Dealership Outlets with Remarkable Advantages in Brands and Locations

As of the date of this interim report, the Group had 52 dealership outlets in operation, covering 21 cities across China, and distributed 12 luxury and ultra-luxury brands, of which, eight were luxury brands, namely, BMW, MINI, Lexus, Jaguar, Land Rover, Volvo, Zinoro and Alfa Romeo; and four were ultra-luxury brands, namely, Rolls Royce, Aston Martin, Ferrari and Maserati.

Since 2017, the Group strengthened its efforts in the expansion of dealership outlets, which included newly opened five dealership outlets in cities such as Beijing, Zhengzhou, Wuxi and Changzhou. In addition, the Group currently owns 16 dealership outlets under construction or to be constructed. The Group planned to further increase its efforts in applying for outlets authorization and acquisitions, complement advantages in brands and regional layout, and accelerate the expansion of dealership outlets by way of self-construction, merger and acquisition and so on in the second half of 2017.

Realization of Steady Growth in New Vehicles Sales

In the first half of 2017, the Group recorded sales volume of new vehicles of 11,662 units, representing an increase of 8.9% as compared with 10,710 units of the same period of 2016. The breakdown of sales volume of new vehicles of the Group in the first half of 2017 is as follows:

- BMW recorded a sales volume of 9,491 units (including MINI), representing an increase of 5.2% over the same period in 2016. BMW is the largest brand under the Group's dealership, which contributed 81.4% to the total sales volume.
- Maserati recorded a sales volume of 668 units, representing an increase of 40.3% over the same period in 2016.
- Lexus recorded a sales volume of 1,116 units, representing an increase of 40.6% over the same period in 2016.

Business Overview

Steady Development of and Reorganization for Comprehensive After-sales Business

As of the date of this interim report, the leading comprehensive after-sales business in China dedicated to the repair and maintenance services of luxury and ultra-luxury automobiles, in which the Group invested, has established 151 independent comprehensive after-sales outlets, of which, 47 were centre outlets and 104 were community outlets offering fast repair services, covering 42 cities across the country, and has operated several Tesla authorized maintenance service centers, forming a service network layout with fast repair outlets covering the neighbourhood of each centre outlet acting as the core from offline to online. The Company continues to hold a positive attitude towards the development of the independent automobile after-sales industry, believing that there will be huge room for the development of comprehensive after-sales business in the future. However, due to the relatively rapid expansion of the comprehensive after-sales business network and the relatively large amount of expenses in the early stage, the Board has decided in the first half of 2017 to introduce the management and external investors for the comprehensive after-sales business to balance the short-term interests and the long-term interests of the Company's shareholders and to improve the financial performance of the Company.

On 29 June 2017, Henan Hexie Automobile Aftersales Services Co., Ltd.* (河南和諧汽車維修服務有限公司), an indirect subsidiary of the Company and its subsidiaries, branches and representative offices (the "Independent Aftersales Company") announced to introduce a management team and investments from external investors. Upon completion of the transaction, Henan Hexie Automobile Trading Co., Ltd.* (河南和諧汽車貿易有限公司), an indirect wholly-owned subsidiary of the Company ("Hexie Automobile Trading"), the after-sales management team and the external investors will hold 49.28%, 25.36% and 25.36% equity interest in the Independent Aftersales Company, respectively. Upon completion of the transaction, the Company remained as an important investor of the Independent Aftersales Company and the Independent Aftersales Company planned to seek for A-share listing after the adjustment of the shareholding structure and the maturity of the business development. As of the date of this interim report, the after-sales management team has made an initial capital contribution to the Independent Aftersales Company in the amount of RMB51.0 million, and the completion of the remaining capital contribution to be made by the after-sales management team and the capital contribution to be made by external investors is subject to the satisfaction of all conditions. As a result of the restructuring of the Independent Aftersales Company and increase in valuation, the Group recognised investment income of RMB36.2 million in the first half of 2017. The Board believe that with the great efforts on the development of comprehensive after-sales business and several rounds of financing in the future, the valuation of the Independent Aftersales Company will continue to increase and the Group can continuously receive investment return from comprehensive after-sales business in a long run.

Rapid Progress of Intelligent Internet Electric Vehicles Project (FMC)

Global Platform

In recent years, new energy vehicles have developed rapidly around the globe and in China. The Group, as the founding investor, invested in the establishment of FMC, which focuses on the R&D and manufacturing of high-end intelligent electric vehicles, in 2016. As a global intelligent electric vehicle company, FMC has dedicated to manufacture high-end intelligent electric vehicles in China and build up the future for global automobile industry to provide pleasant travelling experience for people. FMC has set up headquarters, manufacturing and R&D bases in Nanjing, engineering R&D centre in Munich, as well as intelligent, internet and autonomous driving R&D centre in Silicon Valley.

Business Overview

Elite Entrepreneurial Team

The core team of FMC are elite talents from large auto companies and technology companies such as BMW, Tesla, Google, Apple and Infiniti, etc. Powerful research and development teams and experienced management teams provide strong driving force for the development of high-end intelligent internet electric vehicles.

Strong Government Support

In January 2017, FMC entered into an agreement with Nanjing Economic and technological development zone, pursuant to which the high-end intelligent electric vehicles research and development and manufacturing base is expected to be constructed in Nanjing Economic and Technological Development Zone with the planned total annual production capacity of 300,000 units of intelligent electric vehicles. Among which, the Phase I Project has a designed annual production capacity of 150,000 units of intelligent electric vehicles, and is expected to commence construction in 2017 and to commence production upon completion in 2019. The local government has placed FMC as an important project at provincial level in Jiangsu Province, and will provide substantial support in capital, land, tax and R&D incentives, etc.

Steady Progress in Products

In the first half of 2017, the businesses of FMC have developed steadily with remarkable achievements in research and development and manufacturing. FMC is expected to introduce the first prototype vehicle at the end of 2017 and to present it at the CES conference to be held in January 2018 and to officially launch the first vehicle for mass production in 2019.

Successful Financings

FMC has conducted two rounds of financing since its inception to introduce investors, with the first round executed in December 2016 and the second round in July 2017. FMC's pre-investment valuation in the second round of financing was USD550 million with the financing scale of USD200 million and the corresponding post-investment valuation of USD750 million, which fully indicated the acknowledgement of the investors to FMC. The investment funds which invested in FMC were comprised of well-known investment management institutions and large enterprise groups. FMC has received very strong interests from lots of investors and will launch another round of financing recently.

Harmony Auto Recorded High Appreciation Gains from FMC

Due to the appreciation of valuation of FMC, in which the Group invested, the investment income recognised by the Group in the first half of 2017 was RMB332.9 million, after deducting the sharing of FMC's losses of RMB79.6 million, the net gain was RMB253.3 million. With the progressing and completion of FMC's product milestones, it will conduct several rounds of financing continuously, until its listing on a stock exchange. After FMC enters into volume production in the future, Harmony Auto will provide platform supports in new vehicle sales and after-sales services to FMC, and bring in new revenues to the Group at the same time. The Board believes that it will receive continuous investment returns with the progress of businesses, subsequent financing and future listing of FMC.

Business Overview

Rapid Development of the Automobile Finance Business

With the increasing penetration rate of luxury and ultra-luxury automobiles and the rise of the younger generation of consumers, the demands of consumers for automobile finance have increased rapidly. As China's leading dealership group for luxury and ultra-luxury automobiles, the Group is uniquely positioned to develop the automobile finance business. The Group historically focused on the automobile finance agency business and received commission. By leveraging the Group's advantages in dealership outlets, customer base and capital, the Group has stepped up its efforts to develop its automobile finance business since the first half of 2017. On one hand, the Group developed its agency business actively, in order to improve penetration rate of automobile financing and to increase commission income. Currently the penetration rate of our automobile financing in 4S outlets is around 60%. On the other hand, the Group is actively developing its own automobile finance business. Henan Hexie Automobile Finance Leasing Co., Ltd., the indirect wholly-owned subsidiary of the Group, is qualified to be engaged in the automobile finance leasing business with a registered capital of HKD250 million. Its automobile finance products have been introduced to each dealership outlet of the Group and its businesses have developed smoothly. The Group will continue to increase investment in its own automobile finance business to expand the scale and improve the profitability of the automobile finance business.

Future Outlook and Development Strategies

In the opinion of the Group, the penetration rate of automobiles in China is still lagging behind that of developed countries and vehicle ownership is far from saturation, hence extensive room still exists for new automobile sales. With the increase of household income growth and upgraded consumer spending, the luxury and ultra-luxury automobile markets grow constantly. As of the end of 2016, vehicle ownership for civilian use in China was over 194 million units. The increase in vehicle ownership and the growth in average automobile age would further foster the booming growth of after-market services for automobiles, and its market scale is likely to reach RMB1 trillion in the next few years. In developed countries, other than 4S outlets, the automobile after-market was mainly operated by large-scale branding and chained after-sales group, while the automobile after-market in China is extensively fragmented at present. Other than 4S outlets, the business is mainly comprised of numerous street repair shops and has not yet formed a branding and chained repair group with higher market share. The Group believed that the automobile after-market in China will gradually converge with the developed countries in the future. Harmony Auto would be highly benefited from its first mover an advantage to develop a branding, chained, powerful after-sales services tycoon.

New energy vehicles represent the future of automobile industry. As the world's largest automobile market in scale, China still has a low new energy vehicles penetration level. With encouragement and support from governmental policies, the increase in awareness on environmental protection among consumers as well as industry development maturing over time, it is anticipated that new energy vehicles industry will continue with its rapid development.



Business Overview

The Company will continue to execute the following development strategies with an aim to further boost its profitability and create greater value for its shareholders:

- focusing on luxury and ultra-luxury brands, accelerating the rapid expansion of the business scale of 4S outlets and proactively expanding the dealership outlets by way of self-construction and merger and acquisition.
- actively supporting the development of chain comprehensive after-sales business and seeking for independent listing in A shares market in the future.
- actively supporting the development and financing of FMC and introducing more external strategic investors in order to accelerate product launch and seeking for independent listing in the future.
- proactively enhancing the penetration rate of automobile finance, increasing commission income and commencing financial leasing business.
- fully utilizing internet platform, facilitating after-sales services and businesses of pre-owned automobiles and parallel imports of automobiles, realizing online and offline interaction and complementary functions.



Financial Overview

Revenue

Revenue of the Group was RMB5,085.2 million for the first half of 2017, representing an increase of 3.2% as compared to RMB4,928.2 million for the corresponding period of 2016. Assuming the addition of commission income (mainly from insurance agency and automobile finance agency business), total revenue of the Group was RMB5,230.3 million for the first half of 2017, representing an increase of 3.3% as compared to RMB5,061.6 million for the corresponding period in 2016.

Revenue from sales of new passenger vehicles increased by 7.6% from RMB4,011.4 million for the corresponding period of 2016 to RMB4,314.5 million in the first half of 2017. The increase in sales revenue of new vehicles was mainly benefited from the increase in sales volume of new vehicles.

Revenue from after-sales services and accessories business decreased by 15.9% from RMB916.8 million for the corresponding period of 2016 to RMB770.7 million in the first half of 2017. The drop in revenue from after-sales services and accessories business was mainly attributed to the restructuring of comprehensive after-sales business by the Group in the first half of 2017.

Cost of Sales and Services Provided

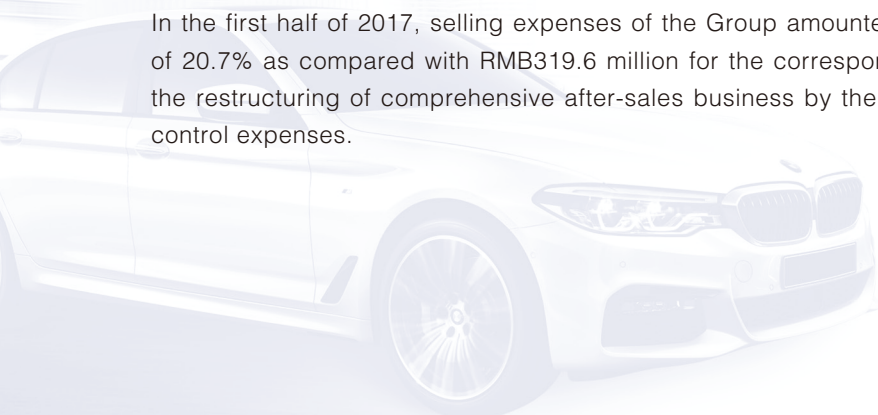
Cost of sales and services of the Group increased by 6.4% from RMB4,317.1 million for the corresponding period of 2016 to RMB4,591.8 million in the first half of 2017. Cost of sales attributable to sales of new passenger vehicles increased by 8.1% from RMB3,828.9 million for the corresponding period of 2016 to RMB4,140.5 million in the first half of 2017. Cost of sales attributable to after-sales services and accessories business decreased by 7.6% from RMB488.2 million for the corresponding period of 2016 to RMB451.3 million in the first half of 2017.

Gross Profit and Gross Profit Margin

In the first half of 2017, gross profit of the Group amounted to RMB493.4 million, and gross profit margin of the Group was 9.7%. In the first half of 2017, gross profit from sales of new passenger vehicles was RMB174.0 million, and new vehicles reported gross profit margin of 4.0%. In the first half of 2017, gross profit from after-sales services and accessories business was RMB319.4 million, with a gross profit margin of 41.4%, and the after-sales services, together with the accessories business contributed 64.7% to the gross profit of the Group.

Selling Expenses

In the first half of 2017, selling expenses of the Group amounted to RMB253.6 million, representing a decrease of 20.7% as compared with RMB319.6 million for the corresponding period of 2016. It was mainly attributed to the restructuring of comprehensive after-sales business by the Group and the adoption of various measures to control expenses.



Financial Overview

Administrative Expenses

As compared to RMB75.1 million for the corresponding period of 2016, administrative expenses of the Group decreased by 35.4% to RMB48.5 million in the first half of 2017. It was mainly attributed to the restructuring of comprehensive after-sales business by the Group and the adoption of various measures to control expenses.

Other Income and Gains, Net

Other income and gains, net increased by 114.5% from RMB267.7 million for the corresponding period of 2016 to RMB574.3 million in the first half of 2017, and the change was primarily due to:

- the commission income (mainly from insurance agency and vehicle financing agency service) for the first half of 2017 was RMB145.1 million, representing an increase of 8.8% from RMB133.4 million for the corresponding period of 2016;
- income from advertisement support received from manufacturers for the first half of 2017 was RMB9.4 million, representing an increase of 34.3% as compared to RMB7.0 million for the corresponding period of 2016;
- gain from deemed disposal of subsidiaries for the first half of 2017 was RMB36.2 million, which was due to the investment income due to the restructuring of comprehensive after-sales business by the Group; and
- gain on deemed disposal of an associate and gain on investments held-for-sale transfer from an associate for the first half of 2017 was RMB26.9 million and RMB306.0 million, respectively, totaling RMB332.9 million, which was due to the investment income due to the appreciation of equity value of FMC held by the Group.

Finance Costs

The Group's finance costs for the first half of 2017 was RMB34.8 million, representing a decrease of 31.5% as compared to RMB50.8 million for the corresponding period of 2016, primarily due to the repayment of a large amount of bank loans by the Group in the second half of 2016 and the first half of 2017.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Group's EBITDA for the first half of 2017 was RMB757.3 million, representing a growth of 36.7% as compared to RMB553.9 million for the corresponding period of 2016.

Profit from Operations

Based on the reasons discussed above, the Group's profit from operations for the first half of 2017 was RMB765.7 million, representing an increase of 58.2% as compared to RMB484.1 million for the corresponding period of 2016.

Financial Overview

Profit for the Period Attributable to the Owners of the Parent

The Group's profit for the period attributable to owners of the parent for the first half of 2017 was approximately RMB564.7 million, representing an increase of 84.5% as compared against RMB306.1 million for the corresponding period of 2016.

Liquidity and Capital Resources

Cash Flow

The Group's primary uses of cash are for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets, after-sales services outlets and to fund its working capital and operating expenses. The Group's liquidity needs were financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at 30 June 2017, cash and deposits of the Group totalled RMB2,013.0 million.

For the first half of 2017, the Group's net cash used in operating activities was RMB603.6 million, net cash generated from investing activities was RMB974.6 million, and net cash used in financing activities was RMB588.2 million.

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

Net Current Assets

As at 30 June 2017, the Group had net current assets of RMB1,991.7 million, representing an increase of 22.6% as compared to net current assets of RMB1,625.2 million as of 31 December 2016.

Capital Expenditure

The Group's capital expenditure (primarily used for the expenditure generated from the purchase of property, plant and equipment in connection with the establishment of new outlets) for the first half of 2017 and the corresponding period of 2016 was RMB106.1 million and RMB402.9 million, respectively.

Inventory

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Each of the Group's outlets individually manages its orders for new passenger vehicles and after-sales services products, but its headquarters implements active warning, supervision and management on inventories of all stores to ensure a reasonable inventory balance.

Financial Overview

The Group's inventories increased by RMB367.0 million, or 41.5%, from RMB885.1 million as of 31 December 2016 to RMB1,252.1 million as of 30 June 2017, primarily due to an increase in the Group's inventory of new passenger vehicles by 51.8% from RMB731.3 million as of 31 December 2016 to RMB1,109.9 million as of 30 June 2017. The increase in the Group's inventory of new passenger vehicles was mainly due to (1) the accelerated disposal of inventory by the Group in the second half of 2016, resulting in the relatively low inventory as of 31 December 2016; (2) the increase in the dealership outlets in the first half of 2017 to introduce new brands such as Alfa Romeo; and (3) the Group's preparation for the peak sales season in the second half of 2017 due to the arrival of the new product cycle of BMW and other brands. As the management of the Company always pays attention to the turnover of inventory, the Group established an inventory warning management system, and introduced promotion, marketing plans and corresponding measures in accordance with market trend which benefit customers. The Group also established a unified dynamic inventory management system to consolidate the inventory resources.

As at 30 June 2017, the Group had inventory of 2,904 new vehicles, representing an increase of 78.3% as compared to inventory of 1,629 new vehicles as of 31 December 2016. The Group's average inventory turnover days for the first half of 2017 were 42 days, being a decrease of 12 days as compared to the corresponding period of 2016. Among which, average inventory turnover days for luxury vehicles were 36 days, representing a decrease of 13 days as compared to the corresponding period of 2016.

Bank Loans and Other Borrowings

As at 30 June 2017, the Group had bank loans and other borrowings in the aggregate amount of RMB1,437.6 million, representing a decrease of 22.9% as compared to RMB1,863.4 million as at 31 December 2016. The table below sets forth breakdowns of our bank loans and other borrowings as of the indicated dates:

	30 June 2017	31 December 2016
	RMB'000	RMB'000
Bank loans repayable:		
Within one year or on demand	836,822	1,087,696
In the second year	17,778	21,332
In the third to fifth years	7,009	17,610
	861,609	1,126,638
Other borrowings repayable:		
Within one year or on demand	576,036	736,721
Total	1,437,645	1,863,359

As at 30 June 2017, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 31.1%, representing a decrease of 11.9 percentage points as compared with that of 31 December 2016.

Financial Overview

As at 30 June 2017, the Group's net cash ratio, which is calculated by net cash (cash and deposits minus interest bearing liability) divided by the total equity attributable to owners of the parent was 9.9%.

As at 30 June 2017, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Company's assets. The Company's assets, subject to these mortgages or pledges as at 30 June 2017, consisted of (i) inventories in the amount of RMB446.2 million; (ii) property in the amount of RMB27.4 million; and (iii) prepayments of land leasing in the amount of RMB11.7 million. In addition, certain of the Group's bank loans and other borrowings were guaranteed by the Controlling Shareholder or affiliates of the Controlling Shareholder. As at 30 June 2017, the Group did not have bank loans, borrowings or bonds payable denominated in foreign currency.

Contingent Liabilities

As at 30 June 2017, the Company did not have any material contingent liabilities or guarantees.

Interest Rate Risk and Foreign Exchange Risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rate on our debt. Certain of its 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 the Group's cost of borrowing. If this occurs, it could adversely affect the Group's finance costs, profit and the Group's financial condition. The interest rates on bank loans and overdrafts in China depend on the benchmark loan rates published by the People's Bank of China. The Group does not currently use any derivative instruments to manage the Company's interest rate risk.

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



Financial Overview

Employees and Remuneration Policies

As at 30 June 2017, the Group had a total of 3,270 employees (31 December 2016: 5,363 employees). The change in number of employees of the Group was due to restructuring of integrated after-sales business in the first half of 2017. Relevant staff cost for the first half of 2017 was approximately RMB120.1 million, while the staff cost was approximately RMB169.1 million for the corresponding period of 2016. The remuneration packages for employees are based on individual experience and work duties. The remuneration packages are subject to annual review by the management, taking into account the overall performance of the staff and market condition. The Group also participates in the state-managed retirement benefit scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong. In addition, eligible employees are also entitled to restricted share units under the restricted share unit scheme and share options under the share option scheme adopted by the Company.

Material Acquisitions, Disposals and Significant Investments

Save as disclosed in this interim report, during the six months ended 30 June 2017, the Group had not made any material acquisitions and disposal of subsidiaries and associated companies. Save as disclosed in this interim report, as at 30 June 2017, the Group did not hold any other significant investments.



Corporate Governance and Other Information

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

As at 30 June 2017, the interests and short positions of the directors (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 (the "Model Code") were as follows:

Name	Position	Ordinary Shares			Underlying Shares under Restricted Share Unit Scheme ⁽³⁾	Underlying Shares under Share Option Scheme ⁽⁴⁾	Personal Interests	Total Interests	Approximate % of Shareholding Interest
		Personal Interests	Family Interests	Interest of controlled corporation	Beneficiaries				
Mr. FENG Changge	Director	-	-	690,066,160 (L) ⁽¹⁾	-	5,000,000 ⁽⁵⁾	695,066,160 (L)	44.11%	
Ms. MA Lintao	Director	-	695,066,160 (L) ⁽²⁾	-	-	-	695,066,160 (L)	44.11%	
Mr. YANG Lei	Director	2,075,476 (L)	-	-	488,871 (L)	3,000,000 ⁽⁶⁾	5,564,347 (L)	0.35%	
Mr. LIU Fenglei	Director	653,272 (L)	-	-	125,315 (L)	5,000,000 ⁽⁶⁾	5,778,587 (L)	0.37%	
Mr. QIAN Yewen ⁽¹⁰⁾	Director	862,000 (L)	-	-	-	8,000,000 ⁽⁶⁾	8,862,000 (L)	0.56%	

Notes:

- (1) These 690,066,160 shares in the Company are held by Eagle Seeker Company Limited ("Eagle Seeker"). Mr. FENG Changge is deemed to be interested in the said 690,066,160 Shares by virtue of Eagle Seeker being controlled by Mr. FENG Changge.
- (2) Ms. MA Lintao is Mr. FENG Changge's spouse and is therefore deemed to be interested in all the shares of the Company in which Mr. FENG Changge is deemed to be interested in.
- (3) These Shares represent Shares underlying the RSU Awards granted to the relevant Directors pursuant to the RSU Scheme. For further details, please refer to the section headed "Restricted Share Unit Scheme" below.
- (4) These interests represent options to subscribe Shares in accordance with the Share Option Scheme granted to the relevant Directors. For further details, please refer to the section headed "Share Option Scheme" below.
- (5) These options were granted by the Company in May 2017 and accepted by the relevant grantees in July 2017.
- (6) These options were granted by the Company in June 2015 or July 2015, and were replaced by the new share options granted by the Company in May 2017 and accepted by the relevant grantees in July 2017.
- (7) "Personal Interests" represents interests directly beneficially owned.

Corporate Governance and Other Information

- (8) “Family Interests” represents interests of spouse or child under 18.
- (9) The letter “L” denotes the long position in the shares of the Company.
- (10) Mr. QIAN Yewen ceased to act as an executive Director and Chief Financial Officer of the Company with effect on 31 August 2017.

Save as disclosed above, as at 30 June 2017, 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 20 May 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.

An award granted under the RSU Scheme (the “RSU Award”) gives a participant in the RSU Scheme (the “RSU Participant”) a conditional right when the RSU Award vests to obtain either shares of the Company (the “Share(s)”) 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 28 May 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, 2 of which were Directors. The RSU Awards granted to the RSU Participants on 28 May 2013 pursuant to the RSU Scheme originally had a vesting period of four years as follows: 10% on 2 January 2014, 30% on 2 January 2015, 30% on 2 January 2016 and 30% on 2 January 2017. Pursuant to a resolution passed by the Board on 27 August 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 2 January 2014, 10% on 30 June 2014, 20% on 2 January 2015, 20% on 2 January 2016, 20% on 2 January 2017 and 20% on 2 January 2018. Other than the aforesaid, the terms of the RSU Scheme remain unchanged. Please refer to the prospectus of the Company dated 31 May 2013 for further details of the principal terms of the RSU Scheme. As of 30 June 2017, 4,755,215 RSU Awards cancelled/lapsed/forfeited due to the resignation of certain RSU Participants and 11,777,557 RSU Awards were vested.

Corporate Governance and Other Information

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

Name	Number of Shares underlying the RSU Awards granted as at 1 January 2017	Cancelled/ Lapsed/Forfeited during the period	Vested during the period	Number of Shares underlying the RSU Awards granted as at 30 June 2017
<i>Directors</i>				
Mr. YANG Lei	977,740	–	488,869	488,871
Mr. LIU Fenglei	250,633	–	125,318	125,315
<i>Former Directors</i>				
Mr. YU Feng ⁽¹⁾	1,040,397	–	520,199	520,198
Mr. CUI Ke ⁽²⁾	727,104	–	363,552	363,552
<i>Employees</i>				
	2,160,397	–	1,080,207	1,080,190
Total	5,156,271	–	2,578,145	2,578,126

Notes:

- (1) Mr. YU Feng resigned as an executive Director and Chief Executive Officer of the Company with effect from 19 October 2015.
- (2) Mr. CUI Ke resigned as an executive Director and Vice President of the Company with effect from 1 September 2015.

Share Option Scheme

The Company has adopted the Share Option Scheme on 26 June 2015, which is made pursuant to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), for the purpose of attracting, retaining and motivating talented employees to strive towards long term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. A summary of the Share Option Scheme has been set out in note 18 to the financial statement.



Corporate Governance and Other Information

Details of the options (the “Share Options”) to subscribe ordinary Shares, pursuant to the Share Option Scheme and the movement during the period are set out below:

Name of Grantees	Date granted	Exercise price per Share	Number of Share Options				
			Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at 30 June 2017 ⁽⁴⁾
<i>Directors</i>							
Mr. FENG Changge – Executive Director and Chairman of the Board	9 May 2017	HK\$3.00	–	5,000,000 ⁽¹⁾	–	–	–
Mr. LIU Fenglei – Executive Director and Chief Executive Officer	9 May 2017	HK\$3.00	–	5,000,000 ⁽¹⁾	–	–	–
Mr. YANG Lei – Executive Director, Chief Operating Officer and Vice President	29 June 2015 9 May 2017	HK\$10.60 HK\$3.00	3,000,000 –	– 3,000,000 ⁽¹⁾	– –	– –	3,000,000 ⁽³⁾ –
Mr. QIAN Yewen ⁽²⁾ – Executive Director and Chief Financial Officer	2 July 2015 9 May 2017	HK\$10.60 HK\$3.00	8,000,000 –	– 8,000,000 ⁽¹⁾	– –	– –	8,000,000 ⁽³⁾ –
Other eligible employees	29 June 2015 9 May 2017	HK\$10.60 HK\$3.00	28,900,000 –	– 49,000,000 ⁽¹⁾	– –	11,000,000 –	17,900,000 ⁽³⁾ –
Total							28,900,000

Notes:

- (1) The option period of the 70,000,000 Share Options is from 9 May 2017 to 28 June 2025. All Share Options granted on 9 May 2017 will vest and become fully exercisable on 1 July 2017. These options granted in May 2017 were accepted by the grantees in July 2017.
- (2) Mr. Qian Yewen ceased to act as an executive Director and Chief Financial Officer of the Company with effect from 31 August 2017.
- (3) These share options granted in June 2015 and July 2015 were cancelled upon acceptance of the new share options by the grantees in July 2017.
- (4) The share options outstanding as at 30 June 2017 do not take into account of the new share options granted in May 2017 and accepted by the grantees in July 2017.

Corporate Governance and Other Information

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

As at 30 June 2017, as far as the Company is aware, 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	690,066,160 (L)	43.79%
Foxconn (Far East) Limited ⁽²⁾	Beneficial owner	128,734,000 (L)	8.16%
Hon Hai Precision Industry Co. Ltd ⁽²⁾	Interest of controlled corporation	128,734,000 (L)	8.16%

Notes:

- (1) Eagle Seeker is wholly owned by Mr. FENG Changge, an executive Director and the chairman of the Company.
- (2) Foxconn (Far East) Limited ("Foxconn") is wholly owned by Hon Hai Precision Industry Co. Ltd. ("Hon Hai"), a company listed on the Taiwan Stock Exchange. Accordingly, Hon Hai is deemed to have interest in the 128,734,000 Shares held by Foxconn.
- (3) The letter "L" denotes long position in such Shares.

Save as disclosed above, as at 30 June 2017, 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.



Corporate Governance and Other Information

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

During the six months ended 30 June 2017, the Company repurchased a total of 37,663,500 of ordinary shares of HK\$0.01 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for a total consideration of approximately HK\$140,127,587.10 (excluding transaction cost). The 37,663,500 repurchased shares were subsequently cancelled on 17 July 2017. Details of the shares repurchased during the period under review are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share		Aggregate consideration (HK\$) (excluding transaction cost)
		Highest (HK\$)	Lowest (HK\$)	
January 2017	1,988,500	3.76	3.62	7,388,875.00
February 2017	30,759,500	3.94	3.67	116,633,000.00
April 2017	1,035,000	3.27	3.17	3,346,170.00
May 2017	1,980,000	3.40	2.66	6,230,394.00
June 2017	1,900,500	3.59	3.29	6,529,148.10
Total	37,663,500			140,127,587.10

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would benefit shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

Model Code for Securities Transactions

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 had complied with the Model Code during the six months ended 30 June 2017.

Corporate Governance and Other Information

Compliance with the Corporate Governance Code

For the six months ended 30 June 2017, 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 Listing Rules on the Stock Exchange, save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the chairmen of the nomination, audit and remuneration committees to attend. Mr. Feng Changge, the chairman of the Board and the chairman of the nomination committee, Mr. Xiao Changnian, the chairman of the audit committee and Mr. Xue Guoping, the chairman of the remuneration committee were not able to attend the annual general meeting of the Company held on 9 June 2017 due to business commitments.

Update on Directors’ information

Mr. Qian Yewen ceased to act as an executive Director and Chief Financial Officer of the Company with effect from 31 August 2017.

Ms. Feng Guo was appointed as an executive Director of the Company with effect from 31 August 2017.

Interim Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2017.

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 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 30 June 2017.



Interim Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Revenue	4(a)	5,085,222	4,928,161
Cost of sales and services	5(b)	(4,591,766)	(4,317,071)
Gross profit		493,456	611,090
Other income and gains, net	4(b)	574,325	267,737
Selling and distribution expenses		(253,580)	(319,631)
Administrative expenses		(48,543)	(75,065)
Profit from operations		765,658	484,131
Finance costs	6	(34,763)	(50,843)
Share of profits and losses of			
Joint ventures		293	(7,233)
Associates		(76,824)	(5,167)
Profit before tax	5	654,364	420,888
Income tax expense	7	(86,675)	(111,868)
Profit for the period		567,689	309,020
Attributable to:			
Owners of the parent		564,742	306,134
Non-controlling interests		2,947	2,886
		567,689	309,020
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic (RMB)		0.37	0.20
Diluted (RMB)		0.37	0.20

The accompanying notes on pages 25 to 60 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
PROFIT FOR THE PERIOD	567,689	309,020
<i>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(29,957)	25,887
Other comprehensive (loss)/income for the period, net of tax	(29,957)	25,887
Total comprehensive income for the period, net of tax	537,732	334,907
Attributable to:		
Owners of the parent	534,785	332,021
Non-controlling interests	2,947	2,886
	537,732	334,907

The accompanying notes on pages 25 to 60 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Financial Position

30 June 2017

	Notes	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,970,343	2,757,592
Prepaid land lease payments		11,697	11,897
Intangible assets		34,785	35,418
Goodwill		7,892	7,892
Prepayments and other receivables	10	1,304,885	494,425
Investments in joint ventures		62,689	297,596
Investments in associates		91,046	228,506
Available-for-sale investments		392,506	–
Deferred tax assets		57,456	82,530
Total non-current assets		3,933,299	3,915,856
CURRENT ASSETS			
Inventories	11	1,252,129	885,136
Trade receivables	12	91,205	247,471
Prepayments, deposits and other receivables	13	1,204,431	1,383,688
Available-for-sale investments		21,000	38,000
Pledged and restricted bank deposits		89,209	134,117
Cash in transit		43,214	26,323
Cash and bank balances		1,880,580	2,969,098
Total current assets		4,581,768	5,683,833
CURRENT LIABILITIES			
Bank loans and other borrowings	14	1,412,858	1,824,417
Trade and bills payables	15	247,551	289,388
Other payables and accruals		568,831	1,231,878
Income tax payable		360,803	712,926
Total current liabilities		2,590,043	4,058,609
NET CURRENT ASSETS		1,991,725	1,625,224
TOTAL ASSETS LESS CURRENT LIABILITIES		5,925,024	5,541,080

Interim Consolidated Statement of Financial Position

30 June 2017

	Notes	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	14	24,787	38,942
Deferred tax liabilities		32,974	32,680
Total non-current liabilities		57,761	71,622
NET ASSETS		5,867,263	5,469,458
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	12,498	12,498
Treasury shares		(124,087)	–
Reserves		5,945,677	5,426,610
		5,834,088	5,439,108
Non-controlling interests		33,175	30,350
Total equity		5,867,263	5,469,458

The accompanying notes on pages 25 to 60 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the parent												
	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000*	Capital reserve RMB'000*	Statutory reserve RMB'000*	Merger reserve RMB'000*	Share award reserve RMB'000*	Share option 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 1 January 2017	12,498	-	3,484,857	1,583	187,666	371,200	22,275	28,082	159,821	1,171,126	5,439,108	30,350	5,469,458
Profit for the period	-	-	-	-	-	-	-	-	-	564,742	564,742	2,947	567,689
Other comprehensive income for the period:													
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	(29,957)	-	(29,957)	-	(29,957)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(29,957)	564,742	534,785	2,947	537,732
Deemed disposal of subsidiaries	-	-	-	-	(14,981)	-	-	-	-	-	(14,981)	(122)	(15,103)
Shares repurchased	-	(124,087)	-	-	-	-	-	-	-	-	(124,087)	-	(124,087)
Equity-settled-share option arrangements (note 18)	-	-	-	-	-	-	-	(737)	-	-	(737)	-	(737)
Restricted shares exercised (note 16)	-	-	11,137	-	-	-	(11,137)	-	-	-	-	-	-
At 30 June 2017 (Unaudited)	12,498	(124,087)	3,495,994	1,583	172,685	371,200	11,138	27,345	129,864	1,735,868	5,834,088	33,175	5,867,263

Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000*	Share capital reserve RMB'000*	Statutory reserve RMB'000*	Merger reserve RMB'000*	Share award reserve RMB'000*	Share option 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 1 January 2016	12,498	3,629,373	-	168,220	371,200	30,582	10,502	72,140	1,561,246	5,855,761	31,306	5,887,067
Profit for the period	-	-	-	-	-	-	-	-	306,134	306,134	2,886	309,020
Other comprehensive income for the period:												
Exchange differences related to foreign operations	-	-	-	-	-	-	-	25,887	-	25,887	-	25,887
Total comprehensive income for the period	-	-	-	-	-	-	-	25,887	306,134	332,021	2,886	334,907
Acquisition of non-controlling interests	-	-	1,583	-	-	-	-	-	-	1,583	(3,983)	(2,400)
Final 2015 dividend declared	-	(158,074)	-	-	-	-	-	-	-	(158,074)	-	(158,074)
Equity-settled share award expense (note 17)	-	-	-	-	-	2,611	-	-	-	2,611	-	2,611
Equity-settled share option arrangements (note 18)	-	-	-	-	-	-	8,456	-	-	8,456	-	8,456
Restricted shares exercised	-	13,558	-	-	-	(13,558)	-	-	-	-	-	-
At 30 June 2016 (Unaudited)	12,498	3,484,857	1,583	168,220	371,200	19,635	18,958	98,027	1,867,380	6,042,358	30,209	6,072,567

* These reserve accounts comprise the consolidated other reserves of RMB5,945,677,000 (30 June 2016: RMB6,029,860,000) in the interim consolidated statement of financial position as at 30 June 2017.

The accompanying notes on pages 25 to 60 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

Notes	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Operating activities		
Profit before tax	654,364	420,888
Adjustments for:		
Share of profits and losses of joint ventures and associates	76,531	12,400
Depreciation of items of property, plant and equipment	5(c) 66,839	81,157
Amortisation of prepaid land lease payments	5(c) 200	200
Amortisation of intangible assets	5(c) 1,149	805
Interest income	4(b) (21,717)	(109,147)
Net loss on disposal of items of property, plant and equipment	5(c) 4,341	5,222
Gain on deemed disposal of subsidiaries	4(b) (36,185)	–
Gain on deemed disposal of an associate	4(b) (26,941)	–
Gain on transferring an associate investment to available-for-sale investments	4(b) (306,009)	–
Reversal of impairment of inventories	(1,014)	(5,092)
Equity-settled share award expense	5(a) –	2,611
Equity-settled share option expense	5(a) (737)	8,456
Finance costs	6 34,763	50,843
	445,584	468,343
Decrease in pledged and restricted bank deposits	44,908	132,015
Increase in cash in transit	(18,277)	(1,284)
Decrease/(increase) in trade receivables	149,633	(9,294)
Increase in prepayments, deposits and other receivables	(275,023)	(93,127)
Increase in inventories	(393,321)	(44,327)
Decrease in trade and bills payables	(14,493)	(270,924)
(Decrease)/increase in other payables and accruals	(487,829)	25,173
Cash (used in)/generated from operations	(548,818)	206,575
Income tax paid	(54,817)	(18,746)
Net cash (used in)/generated from operating activities	(603,635)	187,829

Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Investing activities		
Interest received	30,945	112,123
Purchase of items of property, plant and equipment	(106,107)	(402,924)
Proceeds from disposal of items of property, plant and equipment	42,180	41,400
Purchase of intangible assets	(1,107)	(757)
Deemed disposal of subsidiaries	(81,841)	–
Investments in associates	(53,023)	(154,000)
Proceeds from capital reduction in the investment in a joint venture	235,200	–
Proceeds from liquidation of an associate	50,000	–
Advances to Mr. Feng Change (“the Chairman of the Company”), net	–	(811)
Advance to an associate	–	(910)
Purchases of available-for-sale investments	(21,000)	–
Proceeds from disposal of available-for-sale investments	38,000	–
Loans to a third party	–	(180,000)
Decrease/(increase) in time deposits	841,388	(833,803)
Decrease in structured deposits	–	305,000
Net cash generated from/(used in) investing activities	974,635	(1,114,682)

Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Financing activities		
Repurchase of shares	(124,087)	–
Proceeds from bank loans and other borrowings	4,607,998	4,092,170
Repayment of bank loans and other borrowings	(5,033,712)	(4,108,676)
Acquisition of non-controlling interests	–	(2,400)
Dividends paid	–	(158,074)
Interest paid	(38,372)	(64,351)
Net cash used in financing activities	(588,173)	(241,331)
Net decrease in cash and cash equivalents	(217,173)	(1,168,184)
Cash and cash equivalents at beginning of period	1,586,710	2,666,488
Effect of foreign exchange rate changes, net	(29,957)	25,887
Cash and cash equivalents at the end of the period	1,339,580	1,524,191
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the statement of cash flows	1,339,580	1,524,191
Non-pledged time deposits with original maturity of more than three months when acquired	541,000	1,657,203
Cash and bank balances as stated in the statement of financial position	1,880,580	3,181,394

The accompanying notes on pages 25 to 60 form an integral part of the interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

1. General Information

China Harmony New Energy Auto Holding Limited (the “Company”), was incorporated on 24 September 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 13 June 2013 (“Listing”).

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the sale of automobiles and provision of after-sales services in Mainland China.

In the opinion of the directors of the Company (the “Directors”), the ultimate holding company of the Company is Eagle Seeker Company Limited, which is incorporated in the British Virgin Islands (“BVI”).

2. Basis of Preparation and Accounting Policies

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 (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 do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. These interim condensed consolidated financial statements were approved for issue on 24 August 2017. These interim condensed consolidated financial statements have not been audited.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the new and revised standards and interpretation as of 1 January 2017, noted below:

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

2. Basis of Preparation and Accounting Policies (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

The following new standard and amendment to the standards are mandatory for the first time for the financial year beginning January 1, 2017:

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>

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

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

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

Amendments to HKFRS 1	<i>First-time Adoption of HKFRS—Deletion of Short-term exemptions for the first-time adopters¹</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i>
HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
Amendments to HKAS 40	<i>Transfers of Investment Property¹</i>
Amendments to HKAS 28	<i>Investments in Associates and Joint Ventures¹</i>

¹ Effective for annual periods beginning on or after January 1 2018

² Effective for annual periods beginning on or after January 1 2019

³ No mandatory effective date yet determined but available for adoption

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

3. Operating Segment Information

The Group's principal business is the sale of automobiles and provision of after-sales services. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical area

Since all of the Group's revenue were generated from the sale of automobiles and provision of after-sales services in Mainland China and over 90% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical segment information is presented.

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the period, no major customer information is presented.

4. Revenue, Other Income and Gains, Net

(a) Revenue

Revenue represents the net invoiced value of goods sold and the value of services rendered after allowances for returns, trade discounts, where applicable.

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Revenue from the sale of automobiles	4,314,487	4,011,387
Provision of after-sales services	664,658	821,961
Others	106,077	94,813
	5,085,222	4,928,161

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

4. Revenue, Other Income and Gains, Net (Continued)

(b) Other income and gains, net:

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Commission income	145,077	133,394
Advertisement support received from motor vehicle manufacturers	9,423	6,968
Bank interest income	17,343	33,427
Interest income from loans to third parties	4,374	75,720
Gain on deemed disposal of subsidiaries	36,185	–
Gain on deemed disposal of an associate	26,941	–
Gain on transferring an associate investment to available-for-sale investments	306,009	–
Others	28,973	18,228
Total	574,325	267,737

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

5. Profit Before Tax

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

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	104,941	134,486
Equity-settled share award expense	–	2,611
Equity-settled share option expense	(737)	8,456
Other welfare	15,896	23,556
	120,100	169,109
(b) Cost of sales and services:		
Cost of sales of automobiles	4,140,517	3,828,915
Cost of after-sales services	383,440	431,131
Others	67,809	57,025
	4,591,766	4,317,071
(c) Other items		
Depreciation of items of property, plant and equipment	66,839	81,157
Amortisation of prepaid land lease payments	200	200
Amortisation of intangible assets	1,149	805
Loss on disposal of items of property, plant and equipment, net	4,341	5,222
Advertisement and business promotion expenses	22,670	28,562
Bank charges	3,675	4,340
Minimum lease payments under operating leases	30,945	51,787
Foreign exchange differences, net	803	(475)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

6. Finance Costs

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Interest expense on bank borrowings	28,145	57,605
Interest expense on other borrowings	10,227	6,746
Less: Interest capitalised	(3,609)	(13,508)
	34,763	50,843

7. Income Tax

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Current Mainland China corporate income tax	99,388	123,449
Deferred tax	(12,713)	(11,581)
	86,675	111,868

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. There are no assessable profits arising in Hong Kong during the period.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate for Mainland China subsidiaries is 25%.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

8. Dividends

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Dividends on ordinary shares declared during the period		
Final dividends for 2016: Nil (2015: HK12 cents)	–	158,074

The board of directors (the “Board”) of the Company has resolved not to declare any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: 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 restricted share unit scheme and the share option scheme.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

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 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	564,742	306,134

	Number of shares	
	For the six months ended 30 June 2017 Unaudited	For the six months ended 30 June 2016 Unaudited
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,541,342,202	1,565,775,025
Effect of dilution – weighted average number of ordinary shares: – Restricted shares	2,592,370	4,311,026
	1,543,934,572	1,570,086,051

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

10. Prepayments and Other Receivables

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Due from a related party (<i>Note 1</i>)	844,847	–
Prepayments for purchase of items of property, plant and equipment	425,966	447,248
Prepayments for leasing buildings and land	34,072	47,177
	1,304,885	494,425

Note 1:

On 29 June 2017, Henan Hexie Automobile Trading Co., Ltd. (“Hexie Automobile Trading”, an indirect wholly-owned subsidiary of the Company), Henan Hexie Automobile Aftersales Services Co., Ltd. (the “Independent Aftersales Company”, an indirect wholly-owned subsidiary of the Company), the management and employee stock ownership platforms and certain external investors entered into a capital increase agreement (the “Agreement”) to make further investments in the Independent Aftersales Company. As at 30 June 2017, the equity interest held by Hexie Automobile Trading in the Independent Aftersales Company is 49% and the Independent Aftersales Company has become an associate of the Group, which is also considered a related party of the Group.

As at 30 June 2017, the amount due from the Independent Aftersales Company to the Group is RMB844,847,000, among which RMB320,000,000 is unsecured and non-interest-bearing. The remaining amount is unsecured and bears interest in accordance with the benchmark loan interest rate stipulated by the People’s Bank of China for the corresponding period and has fixed repayment term of 5 years.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

11. Inventories

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Automobiles	1,109,907	731,315
Spare parts and accessories	142,222	153,821
	1,252,129	885,136

At 30 June 2017, certain of the Group's inventories with an aggregate carrying amount of approximately RMB446,178,000 (31 December 2016: RMB382,823,000) were pledged as security for the Group's bank loans and other borrowings (note 14(a)).

At 30 June 2017, certain of the Group's inventories with an aggregate carrying amount of approximately RMB104,056,000 (31 December 2016: RMB57,995,000) were pledged as security for the Group's bills payable (note 15).

12. Trade Receivables

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Trade receivables	91,205	247,471

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

12. Trade Receivables (Continued)

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

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Within 3 months	79,744	237,550
More than 3 months but less than 1 year	11,461	9,921
	91,205	247,471

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

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Neither past due nor impaired	91,205	247,471

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

13. Prepayments, Deposits and Other Receivables

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Prepayments to suppliers	337,457	515,034
Rebate receivables	436,804	480,607
Loans to a third party (i)	200,000	200,000
Insurance commission receivable	21,508	21,247
Due from a related party (ii)	910	910
Others	207,752	165,890
	1,204,431	1,383,688

Notes:

- (i) As of 30 June 2017, the Group granted entrusted loans to a third party with an amount of RMB200,000,000 (31 December 2016: RMB200,000,000). The entrusted loans bear interest at 4.35% per annum (31 December 2016: 4.35% per annum) and will be matured in March 2018.
- (ii) As of 30 June 2017, the Group had balances with its associate, Yongda Hexie. The balance is unsecured and non-interest-bearing and has no fixed repayment term.

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

14. Bank Loans and Other Borrowings

	30 June 2017 Unaudited		31 December 2016 Audited	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
Current				
Bank loans	4.4–8.7	836,822	4.4–8.7	1,087,696
Other borrowings	4.0–8.7	576,036	4.0–8.7	736,721
		1,412,858		1,824,417
Non-current				
Bank loans	7.5–8.7	24,787	7.5–8.7	38,942
		1,437,645		1,863,359

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

14. Bank Loans and Other Borrowings (Continued)

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Bank loans and other borrowings representing:		
– secured (a)	253,999	148,884
– guaranteed (b)	702,587	720,461
– secured and guaranteed (a)(b)	481,059	994,014
	1,437,645	1,863,359
Analysed into:		
Bank loans repayable:		
Within one year	836,822	1,087,696
In the second year	17,778	21,332
In the third to fifth years, inclusive	7,009	17,610
	861,609	1,126,638
Other borrowings repayable:		
Within one year	576,036	736,721
	1,437,645	1,863,359

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

- (i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had an aggregate carrying value of approximately RMB11,697,000 as at 30 June 2017 (31 December 2016: RMB11,897,000);
- (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB27,408,000 as at 30 June 2017 (31 December 2016: RMB28,761,000); and
- (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB446,178,000 as at 30 June 2017 (31 December 2016: RMB382,823,000).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

14. Bank Loans and Other Borrowings (Continued)

- (b) Certain of the Group's bank loans and other borrowings are guaranteed by:
- (i) certain of the Group's bank loans and other borrowings amounting to RMB541,060,000 were guaranteed by the Chairman of the Company as at 30 June 2017 (31 December 2016: RMB1,394,014,000);
 - (ii) certain of the Group's bank loans and other borrowings amounting to RMB11,348,000 were guaranteed by the Chairman of the Company and 河南和諧實業集團有限公司 (Henan Hexie Industrial Group Co., Ltd. ("Hexie Industrial Group", which is under control of the Chairman of the Company)) as at 30 June 2017 (31 December 2016: RMB18,914,000);
 - (iii) certain of the Group's bank loans and other borrowings amounting to RMB331,238,000 were guaranteed by the Group's subsidiaries as at 30 June 2017 (31 December 2016: RMB301,547,000); and
 - (iv) certain of the Group's bank loans amounting to RMB300,000,000 were guaranteed by the Chairman of the Company and 河南和諧置業有限公司 (Henan Hexie Property Co., Ltd., which is under control of the Chairman of the Company) as at 30 June 2017 (31 December 2016: Nil).
- (c) All the Group's bank loans and other borrowings are denominated in RMB.

15. Trade And Bills Payables

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Trade payables	89,847	87,399
Bills payable	157,704	201,989
Trade and bills payables	247,551	289,388

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

15. Trade And Bills Payables (Continued)

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

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Within 3 months	236,476	266,303
3 to 6 months	6,887	15,999
6 to 12 months	3,085	4,300
Over 12 months	1,103	2,786
Total	247,551	289,388

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

Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB104,055,000 as at 30 June 2017 (31 December 2016: RMB57,995,000).

16. Share Capital

	As at 30 June 2017		As at 31 December 2016	
	No. of shares at HK\$0.01 each	Equivalent to RMB'000	No. of shares at HK\$0.01 each	Equivalent to RMB'000
Ordinary shares	1,568,367,336	12,440	1,565,789,191	12,419
Restricted shares ^(a)	7,333,341	58	9,911,486	79
	1,575,700,677	12,498	1,575,700,677	12,498

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

16. Share Capital (Continued)

	Number of issued and fully paid shares	Nominal value of shares HK\$'000	Share premium without proposed final dividend HK\$'000	Equivalent nominal value of shares RMB'000	Equivalent share premium without proposed final dividend RMB'000	Declared final dividend RMB'000	Equivalent share premium RMB'000
At 1 January 2016	1,575,700,677	15,757	4,769,478	12,498	3,799,029	(169,656)	3,629,373
Restricted shares exercised (note (a))	-	-	17,161	-	13,558	-	13,558
Final 2015 dividend declared	-	-	-	-	-	(158,074)	(158,074)
At 31 December 2016 and 1 January 2017	1,575,700,677	15,757	4,786,639	12,498	3,812,587	(327,730)	3,484,857
Restricted shares exercised (note (a))	-	-	14,096	-	11,137	-	11,137
As at 30 June 2017	1,575,700,677	15,757	4,800,735	12,498	3,823,724	(327,730)	3,495,994

Note:

- (a) Pursuant to the resolution of the Board of the Company on 28 May 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 13 June 2013, by way of capitalisation of the sum of HK\$191,000 (equivalent to approximately RMB151,000) 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. As at 30 June 2017, 11,777,557 (31 December 2016: 9,199,412) restricted shares were exercised and converted to ordinary shares. For further details of the RSU Scheme, please refer to note 17 below.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

17. RSU Scheme

The Company's RSU Scheme was approved and adopted by the then shareholder on 20 May 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 28 May 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 2 January 2014, 30% on 2 January 2015, 30% on 2 January 2016 and 30% on 2 January 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 27 August 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 27 August 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 2 January 2014, 10% on 30 June 2014, 20% on 2 January 2015, 20% on 2 January 2016, 20% on 2 January 2017 and 20% on 2 January 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

17. RSU Scheme (Continued)

The fair value of the RSU awards granted as at the grant date was RMB82,554,000 (RMB4.32 each), of which the Group did not recognise any RSU award expense during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB2,611,000).

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.

As at 30 June 2017, a total of 4,755,215 RSU awards were cancelled/lapsed/forfeited due to the resignation of certain RSU Participants and 11,777,557 RSU awards were exercised. At the end of the period, the Company had 2,578,126 RSU awards outstanding under the RSU Scheme.

18. Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of Share Option Scheme include directors and employees of the Company and its subsidiaries. The Share Option Scheme became effective on 26 June 2015, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on 26 June 2015. The maximum number of shares issuable under share options to each eligible participant in Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, an amount of HK\$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period and ends on the expiry date of the option period.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

18. Share Option Scheme (Continued)

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average of the closing prices of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the period:

	As at 30 June 2017		As at 30 June 2016	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	10.60	39,900	10.60	45,000
Forfeited during the period	10.60	(11,000)	10.60	(4,500)
At 30 June	10.60	28,900	10.60	40,500

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

30 June 2017			
Number of options '000	Exercise price* HK\$ per share	Exercise period	
28,900	10.60	1-1-2019 to 31-12-2020	

30 June 2016			
Number of options '000	Exercise price* HK\$ per share	Exercise period	
40,500	10.60	1-1-2019 to 31-12-2020	

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted on 29 June 2015 and 2 July 2015 was RMB90,997,000 (RMB1.89 each and RMB2.05 each), of which the Group reversed a share option expense of RMB737,000 during the six months ended 30 June 2017 (recognised during six months ended 30 June 2016: RMB8,456,000).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

19. Deemed Disposal of Subsidiaries

	Note	2017 RMB'000
Net assets disposed of:		
Property, plant and equipment		786,998
Intangible assets		591
Deferred tax assets		38,081
Inventories		27,342
Trade receivables		6,633
Prepayments, deposits and other receivables		103,755
Cash in transit		1,386
Cash and bank balances		81,841
Trade and bills payable		(27,344)
Other payables and accruals		(949,153)
Income tax payable		(57,193)
Non-controlling interests		(122)
Net assets disposed of		12,815
Gain on deemed disposal of subsidiaries	4(b)	36,185
Investment in an associate		49,000
Satisfied by:		
Cash		–

An analysis of the net inflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries is as follows:

	2017 RMB'000
Cash consideration	–
Cash and bank balances disposed of	(81,841)
Net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries	(81,841)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

20. Financial Instruments by Category

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

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	413,506	413,506
Trade receivables	91,205	–	91,205
Financial assets included in prepayments, deposits and other receivables	1,647,094	–	1,647,094
Pledged bank deposits	89,209	–	89,209
Cash in transit	43,214	–	43,214
Cash and bank balance	1,880,580	–	1,880,580
	3,751,302	413,506	4,164,808

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	247,551
Financial liabilities included in other payables and accruals	113,868
Bank loans and other borrowings	1,437,645
	1,799,064

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

20. Financial Instruments by Category (Continued)

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

2016

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	38,000	38,000
Trade receivables	247,471	–	247,471
Financial assets included in prepayments, deposits and other receivables	791,051	–	791,051
Pledged bank deposits	134,117	–	134,117
Cash in transit	26,323	–	26,323
Cash and bank balance	2,969,098	–	2,969,098
	<u>4,168,060</u>	<u>38,000</u>	<u>4,206,060</u>

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	289,388
Financial liabilities included in other payables and accruals	263,460
Bank loans and other borrowings	<u>1,863,359</u>
	<u>2,416,207</u>

21. Contingent Liabilities

As at 30 June 2017, the Group had no significant contingent liabilities.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

22. Commitments

(a) Capital commitments

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

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Contracted, but not provided for land leases and buildings	131,330	149,610

(b) Operating lease commitments

As lessee

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

	30 June 2017 Unaudited		31 December 2016 Audited	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within one year	58,231	21,215	90,182	18,867
In the second to fifth years, inclusive	159,273	116,889	214,968	78,915
After five years	267,843	173,282	125,914	204,336
	485,347	311,386	431,064	302,118

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

23. Related Party Transactions and Balances

Mr. Feng Changge is the Chairman of the Company of the Group and is also considered a related party of the Group.

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

(a) Balances with related parties

The Group had the following significant balances with its related parties as at 30 June 2017 and 31 December 2016, respectively:

Due from related parties:

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Non-trade related:		
– Yongda Hexie	910	910
– Independent Aftersales Company	844,847	–
	845,757	910

Due to related parties:

	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Non-trade related:		
– Hexie Industrial Group	36	534

Balances with related parties except Independent Aftersales Company are unsecured and non-interest-bearing and have no fixed repayment terms. For more details about the nature of the balance with Independent Aftersales Company, please refer to note 10.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

23. Related Party Transactions and Balances (Continued)

(b) Compensation of key management personnel of the Group:

	For the six months ended 30 June 2017 Unaudited RMB'000	For the six months ended 30 June 2016 Unaudited RMB'000
Short term employee benefits	3,578	2,118
Equity-settled share award expense	–	1,416
Equity-settled share option expense	2,709	2,724
Post-employee benefits	149	94
Total compensation paid to key management personnel	6,436	6,352

- (c) The Chairman of the Company has guaranteed certain bank loans made to the Group of up to RMB541,060,000 (2016: RMB1,394,014,000) as at the end of the reporting period, as further detailed in note 14(b) to the financial statements.

24. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts of the Group's financial instruments are approximate to fair values.

Management has assessed that the fair values of cash and cash equivalents, cash in transit, pledged bank deposits, structured deposits, trade receivables, loans and receivables, financial assets included in prepayments, deposits and other receivables, amounts due from/to a related party, trade and bill payables and financial liabilities included in other payables and accruals 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 30 June 2017 was assessed to be insignificant.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

24. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

The fair values of unlisted available-for-sale equity investments have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Assets measured at fair value:

As at 30 June 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments: Equity investments	–	392,506	–	392,506

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 (31 December 2016: Nil).

25. Events after the Reporting Period

On 17 July 2017, 37,663,500 repurchased shares have been cancelled.