HARMONY AUTO
和諧汽車

China Harmony New Energy Auto Holding Limited
中國和諧新能源汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3836

2018 Interim Report

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Corporate Information

Board of Directors

Executive Directors

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei
Ms. MA Lintao
Ms. FENG Guo
Mr. HAN Yang
(appointed on 30 June 2018)

Non-executive Director

Mr. FAN Qihui
(resigned on 30 June 2018)

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
Ms. FENG Guo

Nomination Committee

Mr. FENG Changge *(Chairman)*
Mr. XUE Guoping
Mr. XIAO Changnian

Company Secretary

Ms. WONG Wai Yee, Ella

Authorized Representatives

Mr. LIU Fenglei
Ms. WONG Wai Yee, Ella

Legal Adviser

Morrison & Foerster
33/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

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
Shangwuneihuan Road
CBD Zhengdongxin District
Zhengzhou, Henan Province
PRC

Corporate Information

Principal Place of Business in Hong Kong

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

Cayman Islands Share Registrar

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

Management Discussion and Analysis

Industry Overview

In the first half of 2018, China's automobile industry showed a steady growth in sales volume. According to the statistics from China Association of Automobile Manufacturers, sales volume of passenger vehicles in China reached 11.775 million units in the first half of 2018, representing a year-on-year increase of approximately 4.64%. As the market of luxury vehicles was affected by three major factors, namely stagnant real estate market, slumped stock market and unstable tariff policies, the growth in sales volume of each luxury vehicles brand varied. Anticipating clear policies and reviving economy in the second half of the year, combined with the upward trend of per capita disposable income, the consumption upgrades, the rising consumption in second-tier and third tier cities in China and continuous launching of new vehicle models from vehicle manufacturers, the Group believes that the luxury vehicle market will continue to experience rapid growth, as a result, the proportion of overall sales volume of luxury vehicles in the overall sales volume of passenger vehicles in China will continue to ascend.

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 412,000 units in the first half of 2018, representing a year-on-year increase of approximately 111.3%. Among which, sales volume of battery electric vehicles (BEVs) reached 313,000 units, representing a year-on-year increase of approximately 95.6%.

On 22 May 2018, the Customs Tariff Commission of the Chinese State Council announced that, as approved by the State Council, with effect from 1 July 2018, the tariff on imported vehicles with tax rate of 20% and 25%, respectively, would both be reduced to 15%, representing an average tax reduction of 32.5%; and the tariff on spare parts of automobiles with tax rate of 8% to 25%, would be reduced to 6%, representing an average tax reduction of 46%. The reduction in tariff on vehicle imports is an important measure for further expansion of the reform and opening-up in China. The significant reduction in tariff on vehicle imports will advance the supply-side structural reform, promote structural adjustment, transformation and upgrade in the automobile industry, and lead to the enhancement of quality and efficiency of automotive products, so as to improve domestic market supply, satisfy various needs of population and provide more extensive and economical shopping experience to domestic consumers.

With the sustained growth of potential of the automobile market in China, vehicle ownership maintained a fast-growing trend. According to the Traffic Management Bureau of the Ministry of Public Security, as of 30 June 2018, vehicle ownership totalled 229 million units in China. The number of newly-registered vehicles reached 13.81 million units. The number of motorists reached 396 million and the number of newly-licensed drivers reached 13.25 million. The Group believes that the continuous growing number in vehicle ownership will further boost the development of sales market of both new vehicles and automobile after-sales services.

Management Discussion and Analysis

Business Overview

Accelerating National Layout and Reinforcing Regional Advantages of Brand Portfolio

As of the date of this report, the Group had a total of 54 dealership outlets in operation, covering 22 cities across the country and distributing 13 luxury and ultra-luxury brands, 8 of which were luxury brands, namely, BMW, MINI, Lexus, Jaguar, Land Rover, Volvo, Zinoro and Alfa Romeo; and 5 were ultra-luxury brands, namely, Rolls Royce, Aston Martin, Ferrari, Maserati and Bentley.

The Group currently has 24 authorized dealership outlets under construction or to be constructed, which covered luxury and ultra-luxury brands, including core brands such as BMW, Maserati, Alfa Romeo, Volvo and Bentley, and two new luxury brands – Audi and Lincoln. Such 24 authorized outlets cover provincial capitals or municipalities including Zhengzhou, Beijing, Guangzhou and Wuhan, also newly extended into 9 cities with high growth potential, including Ningbo, Hohhot, Taiyuan and Dongguan. The strategic branding and geographical layout can not only further strengthen the leading position of the Group in mid-west China, but also enhance the recognition and market penetration of the Group nationwide.

The following table sets forth the details of the dealership outlets of the Group as of 30 June 2018:

	Outlets in operation	Outlets pending operation	Total
Authorized outlets of ultra-luxury brands	15	5	20
Authorized outlets of luxury brands	39	19	58
Total	54	24	78

In order to uphold the advantages in brand mixture and regional layout, and further enhance economies of scale and channel strategy, the Group plans to apply for more authorized dealership outlets in the second half of 2018. With the gradual opening of dealership outlets currently under construction or pending construction, in addition to the downward adjustment to tariff which stimulates the sales of imported vehicles, we believe that the Group will record significant growth in the sales of new vehicles in the second half of 2018.

For the six months ended 30 June 2018, the Group recorded new vehicle sales volume of 11,274 units. BMW remains as the largest brand sold under the Group's dealership.

Management Discussion and Analysis

Continuous Growth in After-sales Services and Stable Increase in Commission Income

For the six months ended 30 June 2018, the Group provided services to 142,611 units of vehicles in total, representing a year-on-year increase of approximately 9.45%. The Group proactively enhanced customer satisfaction and brand reputation in order to continuously increase customer loyalty. Through offering exclusively customized and diversified services to customers, such as high-performance repairing and maintenance, detailing, fast spray painting, insurance renewal and extended warranties, along with employing varied marketing methods, including online marketing, cross-industry alliance and membership system, and organizing regular and special pertinent activities for customers, the Group leveraged its leading advantages in the region to extend its scope of services, for the purpose of expanding its customer base which led to the growth in after-sales business. In the meantime, the Group engaged in a new approach to existing after-sales customers by precisely understanding and actively caring for the needs of customers. This strengthened the trustworthiness and reliance to our services, thereby increasing the retention rate of customers.

The Group entered into a strategic cooperation framework agreement with China Continent Property & Casualty Insurance Company Ltd. while optimizing the Group's connection with various major insurance companies in Henan province thereby increase the proportion of the revenue contributed by accident cars under its after-sales services business. This will increase the individual claim amount and the loss ratio of accident cars, enhancing customer's satisfaction and increasing the insurance compensation income of the Group.

Progress of New Energy Auto Projects

Future Mobility Corporation Limited Cayman ("**FMC**"**, whose brand name is Byton**), a globally renowned high-end smart intuitive electric vehicle manufacturer of which the Group is one of the shareholders, has completed a US$500 million in Series B financing in the second quarter of 2018, with a post investment valuation of US$2.2 billion. As the leading investor, FAW Group (一汽集團) invested US$264 million, with other investments from Contemporary Amperex Technology (寧德時代), Tus-Holdings (啟迪控股), as well as other corporates and funds. FAW Group not only invested US$264 million, but also entered into a strategic cooperation framework agreement with FMC. In the future, both parties will carry out in-depth cooperation in the areas of development, production, sales and services of intelligent internet of vehicles products.

After launching the first concept vehicle M–Byte (SUV) in January 2018, on 12 June 2018, FMC held an event "Byton Night" (拜騰之夜) in Shanghai, and unveiled the second concept vehicle named "K-Byte Concept". K-Byte Concept, a luxury vehicle equipped with L4 autonomous driving, is scheduled for mass production in 2021. The Company is currently developing a third concept vehicle model which will be a seven-seat luxury multi-utility vehicle (MPV).

Management Discussion and Analysis

In April 2018, FMC's global headquarters in Nanjing officially commenced its operation and the trial vehicles production in the factory was put into operation, the first batch of prototype vehicles has rolled off the production line and under-gone related tests. The four major production workshops of stamping, welding, painting and assembly in Nanjing factories will also be completed by end of 2018. The production machines will be installed successively, and M–Byte will be officially launched to the market and delivered to the customers in the fourth quarter of 2019 as planned.

With the release of various type of vehicles, completed construction of factories and official mass production of new vehicles, FMC will start launching its IPO plan, during which the Group will not only obtain superior investment income through the listing of FMC, but also bring more diversified income to the Group under new energy auto project as we have reached cooperation intention with FMC in sales of new vehicles and after-sales services.

Comprehensive After-sales Services

As of the date of this report, Henan Hexie Automobile Aftersales Services Co., Ltd.* (河南和諧汽車維修服務有限公司) (the "**Independent Aftersales Company**"), an associate of the Group, has a total of 80 services outlets, of which, 42 were centre outlets and 38 were community outlets, covering 4 municipalities and 29 cities across 18 provinces. All centre outlets are eligible for approved car workshops, loss assessment, claim settlement and direct repair program, which approved by the three major insurance companies (People's Insurance Company of China, Ping An Insurance (Group) Company of China, Ltd. and China Pacific Insurance (Group) Co., Ltd.). The Independent Aftersales Company is operated under the brand "Harmony Auto Maintenance" (和諧汽修), providing after-sales services for models of mainstream luxury and ultra-luxury automobile brands, yet are not only limited to those authorized brands obtained by the Group. In additional to that, it also offers authentication tests for parts and installation of accessories and equipment. Utilizing its advantages of nationwide unified platform, the Independent Aftersales Company is able to provide more thorough and methodical solutions with more proficient and meticulous technical services to problems and malfunction of luxury-brand automobiles at lower prices. All technicians from Independent Aftersales Company have received professional training from technical experts who have served years at luxury automobiles manufacturers, thus our after-sales services are equivalent to those provided in authorized after-sales services workshops.

Meanwhile, the Independent Aftersales Company is also the authorized after-sales service supplier of both TESLA and NIO, partial of its technicians have obtained technical certifications from TESLA and NIO and become the first group of technicians in China receiving certifications recognised globally. The Independent Aftersales Company has become the sole carbon fiber repairing service provider in China with regard to its composite repairing techniques of carbon fiber used in ultra-luxury automobiles.

* *For identification purpose only*

Management Discussion and Analysis

Future Outlook and Development Strategies

In the opinion of the Group, the market penetration of automobiles in China is still lagging behind that of developed countries and vehicle ownership is far from saturation; hence, there is room for the growth in sales volume of new vehicles. With the increase of household income, upgraded consumer spending and downward adjustment of tariffs, the luxury and ultra-luxury automobile markets will achieve constant growth.

Though ranking first in automobile market scale in the world, China still has a low new energy vehicles penetration level. Under the encouragement and support from governmental policies, the awareness on environmental protection among consumers increase as well as growth of maturity level of industry development. It is anticipated that new energy vehicles industry will continue its rapid development.

The Group will progressively execute the following development strategies on ongoing basis with an aim to further boost up its scale in income and profitability to create greater value for its shareholders:

- rapidly developing dealership business, proactively expanding dealership network and enhancing profitability of new outlets;

- through providing customers with diversified and customized automobile related services, increasing the loyalty and reliance of customers, thereby enhancing the income from automotive aftermarket and commission income;

- providing great support for the future development and financing of FMC, introducing more external strategic investors, speeding up the launch schedule of products, and pushing forward the listing of FMC. The Company will continue in-depth collaboration in terms of new vehicles sales and after-sales services so as to share competitive advantages and generate diversified revenue.

Management Discussion and Analysis

Financial Overview

Revenue

Revenue of the Group was RMB4,687.4 million for the first half of 2018, representing a decrease of 7.8% as compared to RMB5,085.2 million for the corresponding period of 2017. Revenue from sales of new passenger vehicles and revenue from after-sales services and accessories business were RMB3,999.1 million and RMB688.3 million respectively.

Revenue of the Group mainly came from sales of new passenger vehicles, accounting for 85.3% of the first half of 2018. The remaining revenue came from after-sales services and accessories business, accounting for 14.7% of the first half of 2018. In terms of revenue from sales of new passenger vehicles, BMW brand recorded the highest revenue from new vehicles sales of the Group, accounting for approximately 71.8% of the total revenue from sales of new passenger vehicles.

Cost of Sales and Services Provided

Cost of sales and services of the Group decreased by 8.3% from RMB4,591.8 million for the corresponding period of 2017 to RMB4,210.2 million in the first half of 2018. Cost of sales from the new passenger vehicles business and cost of sales from after-sales services and accessories business were RMB3,848.5 million and RMB361.7 million respectively.

Gross Profit

In the first half of 2018, gross profit of the Group amounted to RMB477.2 million, and gross profit margin of the Group was 10.2%.

In the first half of 2018, gross profit from sales of new passenger vehicles was RMB150.6 million, and gross profit margin of the Group was 3.8%.

In the first half of 2018, gross profit from after-sales services and accessories business was RMB326.6 million, with a gross profit margin of 47.5%, contributing 68.4% to the gross profit of the Group.

Other Income and Gains, Net

Other income and gains, net decreased by 23.7% from RMB574.3 million for the corresponding period of 2017 to RMB438.4 million in the first half of 2018. Other income and gains mainly comprises the commission income (from insurance agency and vehicle financing agency service), gains on trading of second-hand vehicles, income from advertisement support from automobile manufacturers, interest income as well as fair value gain on financial assets at fair value through profit or loss.

Management Discussion and Analysis

Profit 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 2018 was approximately RMB424.4 million, representing a decrease of 24.8% as compared against RMB564.7 million for the corresponding period of 2017.

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, 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 2018, cash and deposits of the Group totalled RMB1,073.4 million.

For the first half of 2018, the Group's net cash used in operating activities was RMB233.9 million, net cash used in investing activities was RMB106.0 million, and net cash used in financing activities was RMB270.8 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 2018, the Group had net current assets of RMB2,009.1 million, representing a decrease of 3.2% as compared to net current assets of RMB2,076.3 million as of 31 December 2017.

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 2018 and the corresponding period of 2017 was RMB333.1 million and RMB106.1 million, respectively.

Management Discussion and Analysis

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.

The Group's inventories increased by RMB159.2 million, or 12.5%, from RMB1,271.4 million as of 31 December 2017 to RMB1,430.6 million as of 30 June 2018, primarily due to the preparation of inventories for the peak season in the second half of the year.

Bank Loans and other Borrowings

As at 30 June 2018, the Group had bank loans and other borrowings in the aggregate amount of RMB1,597.8 million, representing a decrease of 12.0% as compared to RMB1,816.3 million as at 31 December 2017. The table below sets forth breakdowns of our bank loans and other borrowings as of the indicated dates:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Bank loans repayable:		
Within one year or on demand	**676,081**	732,800
In the second year	**7,174**	15,980
	683,255	748,780
Other borrowings repayable:		
Within one year or on demand	**914,581**	1,067,556
Total	**1,597,836**	1,816,336

As at 30 June 2018, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 35.2%, representing a decrease of 2 percentage points as compared with that of 31 December 2017.

Management Discussion and Analysis

Contingent Liabilities

As at 30 June 2018, 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. 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 are currently subject to any significant direct foreign exchange risk and has not used any derivative financial instruments to hedge its exposure to such risk.

Employees and Remuneration Policies

As at 30 June 2018, the Group had a total of 3,348 employees (31 December 2017: 3,303 employees). Relevant staff cost for the first half of 2018 was approximately RMB140.0 million, while the staff cost was approximately RMB120.1 million for the corresponding period of 2017. 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 ("**RSU Scheme**") and share options under the share option scheme adopted by the Company.

Events after the Reporting Period

There were no significant events after the reporting period ended 30 June 2018 and up to the date of this report which would have any material effect to the Group.

Material Acquisitions, Disposals and Significant Investments

Save as disclosed in this interim report, during the six months ended 30 June 2018, 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 2018, 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 2018, 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:

		Ordinary Shares			Underlying Shares under Share Options		
		Nature of Interests					
Name	Position	Personal Interests	Family Interests	Interest of controlled corporation	Personal Interests	Total Interests	Approximate % of Shareholding Interest
Mr. FENG Changge	Director	–	–	690,066,160 (L)(1)	5,000,000(3)(4)	695,066,160 (L)	45.15%
Ms. MA Lintao	Director	–	695,066,160 (L)(2)	–	–	695,066,160 (L)	45.15%
Mr. LIU Fenglei	Director	653,272 (L)	–	–	5,000,000(3)(4)	5,653,272 (L)	0.37%
Ms. FENG Guo	Director	360,285 (L)	–	–	800,000(3)(4)	1,160,285 (L)	0.08%
Mr. HAN Yang	Director	390,000 (L)	–	–	2,400,000(3)(4)	2,790,000 (L)	0.18%

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 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 Options Scheme".

(4) These options were granted by the Company in May 2017 and December 2017 and accepted by the relevant grantees in May 2017 and December 2017.

(5) "Personal Interests" represents interests directly beneficially owned.

Corporate Governance and Other Information

(6) "Family Interests" represents interests of spouse or child under 18.

(7) The letter "L" denotes the long position in the shares of the Company.

Save as disclosed above, as at 30 June 2018, 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.

Share Option Scheme

The Company has adopted a share option scheme on 26 June 2015 ("**Share Option Scheme**"), which is made pursuant to Chapter 17 of the Rules Governing the Listing of Securities (the "**Listing Rules**"), in relation to grant of share options (the "**Existing Share Options**") to certain employees of the Company or its subsidiaries (the "**Existing Grantees**") to subscribe for up to aggregate number of 45,000,000 shares (the "**Shares**") of HK$0.01 each of the Company, 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. Out of the 45,000,000 Existing Share Options, 29,600,000 share options have lapsed and 15,400,000 share options have not been exercised ("**Outstanding Options**") on 9 May 2017.

The Board has resolved to grant up to 70,000,000 new Share Options to the Existing Grantees and certain new grantees (collectively, the "**Grantees**", each a "**Grantee**") to replace the Outstanding Options, subject to the acceptance of each of these Existing Grantees. No compensation shall be payable to them for cancellation of the Outstanding Options. New Grantees are mainly senior management of the subsidiaries of the Company and general managers of its outlets.

On 15 December 2017, the Directors further offered to grant new Share Options to certain Grantees under the Share Option Scheme, entitling them to subscribe for a total of 15,000,000 Shares of HK$0.01 each of the Company. The grant of the Share Options will be subject to the acceptance of the Grantees.

Summary of each of the Share Option Scheme and the new Share Options has been set out in note 21 to the financial statement.

Corporate Governance and Other Information

Details of the Share Options Scheme to subscribe ordinary shares by the Directors of the Company pursuant to the Share Option Scheme as follows:

				Number of Share Options			
Name of Grantees	Date granted	Exercise price per Share	Outstanding as at 1 January 2018	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at 30 June 2018
Directors							
Mr. FENG Changge							
– Executive Director and Chairman of the Board	9 May 2017	HK$3.00	5,000,000	–	–	–	5,000,000[(1)]
Mr. LIU Fenglei							
– Executive Director and Chief Executive Officer	9 May 2017	HK$3.00	5,000,000	–	–	–	5,000,000[(1)]
Ms. FENG Guo							
– Executive Director and Vice President	9 May 2017	HK$3.00	800,000	–	–	–	800,000[(1)]
Mr. HAN Yang[(3)]							
– Executive Director	9 May 2017	HK$3.00	1,600,000	–	–	–	1,600,000[(1)]
	15 December 2017	HK$4.80	800,000	–	–	–	800,000[(2)]
Former Directors							
Mr. YANG Lei							
– Former Executive Director, Chief Operating Officer and Vice President	9 May 2017	HK$3.00	2,250,000	–	–	–	2,250,000[(1)]
Mr. QIAN Yewen							
– Former Executive Director and Chief Financial Officer	9 May 2017	HK$3.00	6,000,000	–	–	–	6,000,000[(1)]
Other eligible employees	9 May 2017	HK$3.00	48,400,000	–	759,000	–	47,641,000[(1)]
	15 December 2017	HK$4.80	14,200,000	–	–	400,000	13,800,000[(2)]
Total							82,891,000

Corporate Governance and Other Information

Notes:

(1) The Share Option period of the 70,000,000 new Share Options Scheme is valid from 9 May 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) 28 June 2025, the cessation of directorships of the former Directors Mr. QIAN Yewen and Mr. YANG Lei did not involve the grounds of termination as specified in the above (i), and their Share Options remained valid as at 30 June 2018.

(2) The Share Option period of the 15,000,000 new Share Options is valid from 15 December 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) 28 June 2025.

(3) Mr. HAN Yang was appointed as an executive Director with effect from 30 June 2018.

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

As at 30 June 2018, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the 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 were as follows:

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)	44.83%
Foxconn (Far East) Limited[2]	Beneficial owner	128,734,000 (L)	8.36%
Hon Hai Precision Industry Co. Ltd[2]	Interest of controlled corporation	128,734,000 (L)	8.36%

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 2018, 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 and Redemption of the Company's Listed Securities

During the six months ended 30 June 2018, the Company repurchased a total of 5,200,000 of ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$24,686,075.00 (excluding transaction cost). Details of the shares repurchased during the period are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share Highest (HK$)	Repurchase price per share Lowest (HK$)	Aggregate consideration (HK$) (excluding transaction cost)
April 2018	5,200,000	4.96	4.60	24,686,075.00

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

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2018.

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 2018.

Compliance with the Corporate Governance Code

For the six months ended 30 June 2018, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules, save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the chairman of the nomination, audit and remuneration committees to attend. Mr. Feng Changge, the chairman of the Board and the chairman of the nomination committee and Mr. Xiao Changnian, chairman of the audit committee ("**Audit Committee**") were not able to attend the annual general meeting of the Company held on 13 June 2018 due to other business commitments.

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

Corporate Governance and Other Information

Update on Directors' information

Mr. Fan Qihui ceased to act as a non-executive Director of the Company with effect from 30 June 2018.

Mr. Han Yang was appointed as an executive Director of the Company with effect from 30 June 2018.

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

Interim Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2018.

Audit Committee

The Company established an 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 2018.

Interim Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Revenue	5(a)	**4,687,357**	5,085,222
Cost of sales and services	6(b)	**(4,210,198)**	(4,591,766)
Gross profit		**477,159**	493,456
Other income and gains, net	5(b)	**438,430**	574,325
Selling and distribution expenses		**(249,879)**	(253,580)
Administrative expenses		**(77,363)**	(48,543)
Profit from operations		**588,347**	765,658
Finance costs	7	**(30,725)**	(34,763)
Share of profits and losses of			
Joint ventures		**8**	293
Associates		**(42,968)**	(76,824)
Profit before tax	6	**514,662**	654,364
Income tax expense	8	**(83,393)**	(86,675)
Profit for the period		**431,269**	567,689
Attributable to:			
Owners of the parent		**424,424**	564,742
Non-controlling interests		**6,845**	2,947
		431,269	567,689
Earnings per share attributable to ordinary equity holders of the parent	10		
Basic *(RMB)*		**0.28**	0.37
Diluted *(RMB)*		**0.27**	0.37

The accompanying notes on pages 28 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 2018

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
PROFIT FOR THE PERIOD	**431,269**	567,689
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,226**	(29,957)
Other comprehensive income/(loss) for the period, net of tax	**2,226**	(29,957)
Total comprehensive income for the period, net of tax	**433,495**	537,732
Attributable to:		
Owners of the parent	**426,650**	534,785
Non-controlling interests	**6,845**	2,947
	433,495	537,732

The accompanying notes on pages 28 to 60 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Financial Position

30 June 2018

	Notes	**30 June 2018 Unaudited RMB'000**	31 December 2017 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,164,005**	1,976,165
Prepaid land lease payments		**11,297**	11,497
Intangible assets		**106,404**	108,379
Goodwill		**57,911**	57,911
Prepayments	11	**407,088**	420,183
Finance lease receivables	12	**39,547**	14,512
Investments in joint ventures		**5,597**	5,589
Investments in associates		**746,073**	789,041
Available-for-sale investments	16	**–**	887,023
Financial assets at fair value through profit or loss	16	**1,133,147**	–
Deferred tax assets		**49,679**	50,366
Total non-current assets		**4,720,748**	4,320,666
CURRENT ASSETS			
Inventories	13	**1,430,605**	1,271,376
Trade receivables	14	**95,593**	106,190
Finance lease receivables	12	**20,468**	6,724
Prepayments, deposits and other receivables	15	**2,807,044**	2,553,068
Available-for-sale investments	16	**–**	120,577
Financial assets at fair value through profit or loss	16	**144,792**	–
Pledged and restricted bank deposits		**47,177**	81,043
Cash in transit		**54,759**	37,085
Cash and bank balances		**971,481**	1,580,378
Total current assets		**5,571,919**	5,756,441
CURRENT LIABILITIES			
Bank loans and other borrowings	17	**1,590,662**	1,800,356
Trade and bills payables	18	**114,463**	206,207
Other payables and accruals		**917,575**	918,371
Dividends payable		**160,973**	–
Income tax payable		**779,191**	755,221
Total current liabilities		**3,562,864**	3,680,155

The accompanying notes on pages 28 to 60 form an integral part of the interim condensed consolidated financial statements.

Interim Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
NET CURRENT ASSETS		**2,009,055**	2,076,286
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,729,803**	6,396,952
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	17	**7,174**	15,980
Deferred tax liabilities		**50,381**	50,507
Total non-current liabilities		**57,555**	66,487
NET ASSETS		**6,672,248**	6,330,465
EQUITY			
Equity attributable to owners of the parent			
Share capital	19	**12,182**	12,176
Treasury shares		**(19,800)**	–
Reserves		**6,629,876**	6,275,144
		6,622,258	6,287,320
Non-controlling interests		**49,990**	43,145
Total equity		**6,672,248**	6,330,465

The accompanying notes on pages 28 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 2018

	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 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 2018	12,176	–	3,384,541	1,943	213,450	371,200	35,563	113,749	2,154,698	6,287,320	43,145	6,330,465
Impact of adopting HKFRS 9 (note 3)	–	–	–	–	–	–	–	–	68,604	68,604	–	68,604
Restated opening balance under HKFRS 9	12,176	–	3,384,541	1,943	213,450	371,200	35,563	113,749	2,223,302	6,355,924	43,145	6,399,069
Profit for the period	–	–	–	–	–	–	–	–	424,424	424,424	6,845	431,269
Other comprehensive income for the period:												
Exchange differences related to foreign operations	–	–	–	–	–	–	–	2,226	–	2,226	–	2,226
Total comprehensive income for the period	–	–	–	–	–	–	–	2,226	424,424	426,650	6,845	433,495
Final 2017 dividend declared	–	–	(160,973)	–	–	–	–	–	–	(160,973)	–	(160,973)
Shares repurchased	–	(19,800)	–	–	–	–	–	–	–	(19,800)	–	(19,800)
Exercise of share options	6	–	2,194	–	–	–	(349)	–	–	1,851	–	1,851
Equity-settled-share option arrangements (note 21)	–	–	–	–	–	–	18,606	–	–	18,606	–	18,606
At 30 June 2018 (Unaudited)	12,182	(19,800)	3,225,762	1,943	213,450	371,200	53,820	115,975	2,647,726	6,622,258	49,990	6,672,248

The accompanying notes on pages 28 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 2018

	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 21)	–	–	–	–	–	–	–	(737)	–	–	(737)	–	(737)
Restricted shares exercised	–	–	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

* These reserve accounts comprise the consolidated other reserves of RMB6,629,876,000 (30 June 2017: RMB5,945,677,000) in the interim consolidated statement of financial position as at 30 June 2018.

The accompanying notes on pages 28 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 2018

	Notes	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Operating activities			
Profit before tax		**514,662**	654,364
Adjustments for:			
Share of profits and losses of joint ventures and associates		**42,960**	76,531
Depreciation of items of property, plant and equipment	6(c)	**66,019**	66,839
Amortisation of prepaid land lease payments	6(c)	**200**	200
Amortisation of intangible assets	6(c)	**2,297**	1,149
Interest income	5(b)	**(45,528)**	(21,717)
Net loss on disposal of items of property, plant and equipment	6(c)	**8,875**	4,341
Gain on deemed disposal of subsidiaries	5(b)	**–**	(36,185)
Gain on deemed disposal of an associate	5(b)	**–**	(26,941)
Gain on transferring an associate investment to available-for-sale investments	5(b)	**–**	(306,009)
Loss on disposal of shares in a financial asset at fair value through profit or loss	5(b)	**235,603**	–
Fair value gain on a financial asset at fair value through profit or loss	5(b)	**(452,741)**	–
Impairment of/(reversal of impairment) of inventories		**1,038**	(1,014)
Equity-settled share option expense	6(a)	**18,606**	(737)
Finance costs	7	**30,725**	34,763
		422,716	445,584
Decrease in pledged and restricted bank deposits		**33,866**	44,908
Increase in cash in transit		**(17,674)**	(18,277)
Decrease in trade receivables		**10,597**	149,633
Increase in prepayments, deposits and other receivables		**(340,750)**	(275,023)
Increase in inventories		**(160,267)**	(393,321)
Increase in finance lease receivables		**(38,779)**	–
Decrease in trade and bills payables		**(91,744)**	(14,493)
Increase/(decrease) in other payables and accruals		**7,028**	(487,829)
Cash used in operations		**(175,007)**	(548,818)
Income tax paid		**(58,862)**	(54,817)
Net cash used in operating activities		**(233,869)**	(603,635)

The accompanying notes on pages 28 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 2018

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Investing activities		
Interest received	**7,038**	30,945
Purchase of items of property, plant and equipment	**(333,149)**	(106,107)
Proceeds from disposal of items of property, plant and equipment	**79,292**	42,180
Purchase of intangible assets	**(322)**	(1,107)
Deemed disposal of subsidiaries	**–**	(81,841)
Investments in associates	**–**	(53,023)
Proceeds from capital reduction in the investment in a joint venture	**–**	235,200
Proceeds from liquidation of an associate	**–**	50,000
Advance made to an associate	**(75,951)**	–
Proceeds from disposal of shares in a financial asset at fair value through profit or loss	**39,618**	–
Purchase of available-for-sale investments	**–**	(21,000)
Purchases of a financial asset at fair value through profit or loss	**(60,000)**	–
Proceeds from disposal of available-for-sale investments	**–**	38,000
Proceeds from disposal of a financial asset at fair value through profit or loss	**37,000**	–
Collection of loans and receivables from a third party	**200,000**	–
Decrease in time deposits	**500**	841,388
Net cash (used in)/generated from investing activities	**(105,974)**	974,635

The accompanying notes on pages 28 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 2018

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Financing activities		
Proceeds from exercise of share options	**1,851**	–
Repurchase of shares	**(19,800)**	(124,087)
Proceeds from bank loans and other borrowings	**5,220,870**	4,607,998
Repayment of bank loans and other borrowings	**(5,439,370)**	(5,033,712)
Interest paid	**(34,331)**	(38,372)
Net cash used in financing activities	**(270,780)**	(588,173)
Net decrease in cash and cash equivalents	**(610,623)**	(217,173)
Cash and cash equivalents at beginning of period	**1,475,378**	1,586,710
Effect of foreign exchange rate changes, net	**2,226**	(29,957)
Cash and cash equivalents at the end of the period	**866,981**	1,339,580
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the statement of cash flows	**866,981**	1,339,580
Non-pledged time deposits with original maturity of more than three months when acquired	**104,500**	541,000
Cash and bank balances as stated in the statement of financial position	**971,481**	1,880,580

The accompanying notes on pages 28 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 2018

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 2018 (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") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim condensed consolidated financial statements have been prepared under the historical cost convention except financial assets at fair value through profit or loss, which have been measured at fair value. 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 29 August 2018. These interim condensed consolidated financial statements have not been audited.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

2. Basis of Preparation and Accounting Policies (Continued)

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 2017, except for the adoption of the new and revised standards and interpretation as of 1 January 2018, noted below:

The following new standards and amendments to the standards are mandatory for the first time for the financial year beginning 1 January, 2018:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

The impact of the adoption of HKFRS 9 Financial Instruments is disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

2. Basis of Preparation and Accounting Policies (Continued)

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, which have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 9	*Prepayment Features with Negative term Compensation* [1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 16	*Leases*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Annual Improvements 2015–2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[1]

1 Effective for annual periods beginning on or after 1 January, 2019
2 Effective for annual periods beginning on or after 1 January, 2021
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.

3. Changes in Accounting Policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As a result of the changes in the Group's accounting policies, the Group will not restate comparative information and will recognise any transaction adjustments against the opening balance of equity at 1 January 2018.

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. Changes in Accounting Policies (Continued)

(a) Impact on the financial statements (Continued)

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	31 December 2017 As originally presented RMB'000	Impact of adopting HKFRS 9 RMB'000	Reclassification HKFRS 9 RMB'000	**1 January 2018 Restated RMB'000**
Available-for-sale investments ("AFS")	1,007,600	68,604	(1,076,204)	**–**
Financial assets at fair value through profit or loss ("FVPL")	–	–	1,076,204	**1,076,204**
Reserves	6,275,144	68,604	–	**6,343,748**

(b) HKFRS 9 Financial Instruments – Impact of adoption

(i) Unlisted equity investment, unlisted private fund in the PRC and wealth management product previously classified as AFS

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

The Group elected to present in profit or loss ("PL") changes in the fair value of all its unlisted equity investment, unlisted private fund in the PRC and wealth management product previously classified as AFS, because these investments did not pass the contractual cash flow characteristics test in HKFRS 9. As a result, assets with a fair value of RMB1,076,204,000 were reclassified from AFS to FVPL on 1 January 2018.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 3(c) below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. Changes in Accounting Policies (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(i) Unlisted equity investment, unlisted private fund in the PRC and wealth management product previously classified as AFS (Continued)

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018

	AFS	**FVPL**
	RMB'000	RMB'000
Closing balance 31 December 2017		
– HKAS 39	1,007,600	–
Impact of adopting HKFRS 9	68,604	–
Reclassify from AFS to FVPL	(1,076,204)	1,076,204
Opening balance 1 January 2018		
– HKFRS 9	–	1,076,204

(ii) Impairment of financial assets

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applies the simplified approach and record lifetime expected losses of trade receivables. The Group applies the general approach to other debt instruments recorded at amortised cost. The impacts relate to the provision for impairment are immaterial.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

3. Changes in Accounting Policies (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(ii) Impairment of financial assets (Continued)

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement category:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through PL), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in PL or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at financial assets at fair value through OCI ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. Changes in Accounting Policies (Continued)

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

(i) Investments and other financial assets (Continued)

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on de-recognition is recognised directly in profit or loss and presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. Changes in Accounting Policies (Continued)

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

(i) Investments and other financial assets (Continued)

Impairment

From 1 January 2018, the Group assesses the expected credit losses associated with its financial assets on a forward looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

4. 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

4. Operating Segment Information (Continued)

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.

5. 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 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Revenue from the sale of automobiles	**3,999,083**	4,314,487
Revenue from after-sales services	**606,357**	664,658
Others	**81,917**	106,077
	4,687,357	5,085,222

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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

(b) Other income and gains, net

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Commission income	**147,115**	145,077
Advertisement support received from motor vehicle manufacturers	**21,895**	9,423
Bank interest income	**11,085**	17,343
Interest income from loans to an associate	**32,389**	–
Interest income from loans to a third party	**2,054**	4,374
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
Loss on disposal of shares in a financial asset at fair value through profit or loss	**(235,603)**	–
Fair value gain on a financial asset at fair value through profit or loss	**452,741**	–
Others	**6,754**	28,973
Total	**438,430**	574,325

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

6. Profit Before Tax

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

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**106,795**	104,941
Equity-settled share option expense	**18,606**	(737)
Other welfare	**14,553**	15,896
	139,954	120,100
(b) Cost of sales and services		
Cost of sales of automobiles	**3,848,525**	4,140,517
Cost of after-sales services	**317,405**	383,440
Others	**44,268**	67,809
	4,210,198	4,591,766
(c) Other items		
Depreciation of items of property, plant and equipment	**66,019**	66,839
Amortisation of prepaid land lease payments	**200**	200
Amortisation of intangible assets	**2,297**	1,149
Loss on disposal of items of property, plant and equipment, net	**8,875**	4,341
Advertisement and business promotion expenses	**25,419**	22,670
Bank charges	**3,385**	3,675
Minimum lease payments under operating leases	**23,190**	30,945
Foreign exchange differences, net	**(391)**	803

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

7. Finance Costs

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Interest on bank loans and other loans	**34,331**	38,372
Less: Interest capitalised	**(3,606)**	(3,609)
	30,725	34,763

8. Income Tax

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Current Mainland China corporate income tax	**82,832**	99,388
Deferred tax	**561**	(12,713)
	83,393	86,675

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 2018

9. Dividends

A final dividend of HK$0.130 (equivalent to approximately RMB0.105) per ordinary share totaling HK$200,120,203 (equivalent to approximately RMB160,973,154) was approved at the annual general meeting on 13 June 2018. The dividend was subsequently paid on 13 August 2018.

The board of directors (the "Board") of the Company proposed not to declare any interim dividend for the six months ended 30 June 2018.

10. 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.

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

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**424,424**	564,742

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

10. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent (Continued)

	Number of shares	
	For the six months ended 30 June 2018 Unaudited	For the six months ended 30 June 2017 Unaudited
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,536,729,857**	1,541,342,202
Effect of dilution – weighted average number of ordinary shares:		
–Restricted shares	**–**	2,592,370
–Share options	**23,849,182**	–
	1,560,579,039	1,543,934,572

11. Prepayments

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Prepayments for purchase of items of property, plant and equipment	**362,129**	389,474
Prepayments for leasing buildings and land	**44,959**	30,709
	407,088	420,183

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

12. Finance Lease Receivables

Certain motor vehicles of the Group are leased out under finance leases. All interest rates in the leases are fixed at the contract date over the lease terms.

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Analysed as:		
Current	**20,468**	6,724
Non-current	**39,547**	14,512
	60,015	21,236

At 30 June 2018, the future minimum lease receivables under finance leases and their present values were as follows:

	Minimum lease receivables 30 June 2018 Unaudited RMB'000	Present value of minimum lease receivables 30 June 2018 Unaudited RMB'000
Finance lease receivables:		
Within one year	**26,310**	**20,468**
Later than one year and not later than five years	**44,085**	**39,547**
	70,395	**60,015**
Less: Unearned finance income	**10,380**	
Present value of minimum lease payment receivables	**60,015**	

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

13. Inventories

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Automobiles	**1,289,328**	1,146,651
Spare parts and accessories	**141,277**	124,725
	1,430,605	1,271,376

At 30 June 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB658,744,000 (31 December 2017: RMB718,430,000) were pledged as security for the Group's bank loans and other borrowings (note 17(a)).

At 30 June 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB20,739,000 (31 December 2017: RMB78,852,000) were pledged as security for the Group's bills payable (note 18).

14. Trade Receivables

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Trade receivables	**95,593**	106,190

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. Trade receivables are non-interest-bearing.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

14. 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 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Within 3 months	**83,653**	90,432
More than 3 months but less than 1 year	**11,940**	15,758
	95,593	106,190

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

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Neither past due nor impaired	**95,593**	106,190

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 2018

15. Prepayments, Deposits and Other Receivables

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Prepayments to suppliers	**539,876**	536,980
Rebate receivables	**606,420**	553,665
Loans to a third party	**–**	200,000
Insurance commission receivable	**28,577**	22,650
Due from associates (i)	**1,130,966**	1,022,626
Others	**501,205**	217,147
	2,807,044	2,553,068

Notes:

(i) As of 30 June 2018, the Group had balances with its associate, 鄭州永達和諧汽車銷售服務有限公司 (Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.) ("Yongda Hexie"), with an amount of RMB910,000. The balance is unsecured and non-interest-bearing and has no fixed repayment term.

As of 30 June 2018, the Group had advances balance due from its associated company, 河南和諧汽車維修服務有限公司 (Henan Hexie Automobile Aftersales Services Co., Ltd. (the "Independent Aftersales Company"), with an amount of RMB1,097,667,000. The advances bear interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and have no fixed repayment terms and guaranteed by a shareholder of the Company.

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 2018

16. Financial Assets at Fair Value through Profit or Loss/ Available-For-Sale Investments

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Non-current		
Available-for-sale investments		
– Unlisted equity investment, at cost	–	887,023
Financial assets at fair value through profit or loss		
– Unlisted equity investment, at fair value (i)	**1,133,147**	–
Current		
Available-for-sale investments		
– Unlisted private fund in the PRC	–	83,577
– Wealth management products	–	37,000
	–	120,577
Financial assets at fair value through profit or loss		
– Unlisted private fund in the PRC (ii)	**84,792**	–
– Wealth management products (iii)	**60,000**	–
	144,792	–

(i) The unlisted equity investment at 30 June 2018 represented investments in FMC and is measured at fair value.

(ii) The unlisted private fund at 30 June 2018 represented a fund managed by a private fund manager registered and approved by the Asset Management Association of China and is measured at fair value.

(iii) The Wealth management products at 30 June 2018 was wealth management products issued by banks in the PRC and are redeemable on demand.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

17. Bank Loans and Other Borrowings

	30 June 2018 Unaudited		31 December 2017 Audited	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
Current				
Bank loans	4.4–7.5	676,081	4.4–8.7	732,800
Other borrowings	4.0–8.7	914,581	4.0–8.7	1,067,556
		1,590,662		1,800,356
Non-current				
Bank loans	7.5	7,174	7.5	15,980
		1,597,836		1,816,336

		30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Bank loans and other borrowings representing:			
– secured	(a)	50,000	353,762
– guaranteed	(b)	538,256	609,347
– secured and guaranteed	(a)(b)	1,009,580	853,227
		1,597,836	1,816,336
Analysed into:			
Bank loans repayable:			
Within one year		676,081	732,800
In the second year		7,174	15,980
		683,255	748,780
Other borrowings repayable:			
Within one year		914,581	1,067,556
		1,597,836	1,816,336

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

17. Bank Loans and Other Borrowings (Continued)

(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 RMB11,297,000 as at 30 June 2018 (31 December 2017: RMB11,497,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB24,427,000 as at 30 June 2018 (31 December 2017: RMB25,664,000); and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB658,744,000 as at 30 June 2018 (31 December 2017: RMB718,430,000).

(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 RMB794,695,000 were guaranteed by the Chairman of the Company as at 30 June 2018 (31 December 2017: RMB785,205,000);

(ii) certain of the Group's bank loans and other borrowings amounting to RMB453,141,000 were guaranteed by the Group's subsidiaries as at 30 June 2018 (31 December 2017: RMB377,369,000);

(iii) 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., of which the Chairman of the Company is an equity holder) at 30 June 2018 (31 December 2017: RMB300,000,000).

(c) All the Group's bank loans and other borrowings are denominated in RMB.

18. Trade and Bills Payables

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Trade payables	**87,537**	82,750
Bills payable	**26,926**	123,457
Trade and bills payables	**114,463**	206,207

18. 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 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Within 3 months	**105,316**	200,725
3 to 6 months	**6,544**	2,248
6 to 12 months	**1,783**	1,057
Over 12 months	**820**	2,177
Total	**114,463**	206,207

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

Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB20,739,000 as at 30 June 2018 (31 December 2017: RMB78,852,000).

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

19. Share Capital

	As at 30 June 2018		As at 31 December 2017	
	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	**1,539,386,177**	**12,182**	1,538,627,177	12,176

	Number of issued and fully paid shares	Nominal value of shares HK$'000	Share premium HK$'000	Equivalent nominal value of shares RMB'000	Equivalent share premium RMB'000
At 1 January 2017	1,575,700,677	15,757	4,386,887	12,498	3,484,857
Restricted shares exercised	–	–	28,195	–	22,275
Shares repurchased	(37,663,500)	(377)	(140,393)	(327)	(124,317)
Share options exercised (note (a))	590,000	6	2,049	5	1,726
At 31 December 2017 and 1 January 2018	**1,538,627,177**	**15,386**	**4,276,738**	**12,176**	**3,384,541**
Final 2017 dividend declared	**–**	**–**	**(200,074)**	**–**	**(160,973)**
Share options exercised (note (a))	**759,000**	**8**	**2,683**	**6**	**2,194**
At 30 June 2018	**1,539,386,177**	**15,394**	**4,079,347**	**12,182**	**3,225,762**

Note:

(a) During the six months ended 30 June 2018, 759,000 (2017: 590,000) share options under the Company's share option scheme were exercised. Accordingly, 759,000 ordinary shares of HK$0.01 each were issued as a result of the exercise of share options. Details of the Company's share option scheme are included in note 21 to the financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

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20. 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.

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For the six months ended 30 June 2018

20. 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 2018 (six months ended 30 June 2017: Nil).

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 2018, a total of 4,755,215 RSU awards were forfeited due to the resignation of certain RSU Participants and 14,355,683 RSU awards were exercised. At the end of the period, the Company did not have RSU awards outstanding under the RSU Scheme.

21. Share Option Scheme

The Company operates a share option scheme (the "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 the Scheme include employees of the Company and its subsidiaries. The 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 the 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 the 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 Scheme.

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For the six months ended 30 June 2018

21. 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 2018		As at 30 June 2017	
	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	**3.32**	**84,050**	10.60	39,900
Exercised during the period	**3.00**	**(759)**	–	–
Forfeited during the period	**4.80**	**(400)**	10.60	(11,000)
At 30 June	**3.32**	**82,891**	10.60	28,900

The weighted average share price at the date of exercise for share options exercised during the six months ended 30 June 2018 was HK$5.45 per share.

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21. Share Option Scheme (Continued)

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

30 June 2018

Number of options '000	Exercise price* HK$ per share	Exercise period
68,291	**3.00**	**1–7–2017 to 28–06–2025**
14,600	**4.80**	**1–4–2018 to 28–06–2025**
82,891		

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

* 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 9 May 2017 and 15 December 2017 was RMB57,250,000 (RMB0.58 each and RMB1.11 each), of which the Group recognised a share option expense of RMB18,606,000 during the six months ended 30 June 2018 (reversed during six months ended 30 June 2017: RMB737,000).

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22. Financial Instruments by Category

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

2018

Financial assets

	Loans and receivables RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	1,277,939	1,277,939
Finance lease receivables	60,015	–	60,015
Trade receivables	95,593	–	95,593
Financial assets included in prepayments, deposits and other receivables	2,165,909	–	2,165,909
Pledged bank deposits	47,177	–	47,177
Cash in transit	54,759	–	54,759
Cash and bank balance	971,481	–	971,481
	3,394,934	1,277,939	4,672,873

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	114,463
Financial liabilities included in other payables and accruals	137,024
Bank loans and other borrowings	1,597,836
	1,849,323

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For the six months ended 30 June 2018

22. Financial Instruments by Category (Continued)

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	–	1,007,600	1,007,600
Finance lease receivables	21,236	–	21,236
Trade receivables	106,190	–	106,190
Financial assets included in prepayments, deposits and other receivables	2,321,150	–	2,321,150
Pledged bank deposits	81,043	–	81,043
Cash in transit	37,085	–	37,085
Cash and bank balance	1,580,378	–	1,580,378
	4,147,082	1,007,600	5,154,682

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	206,207
Financial liabilities included in other payables and accruals	138,934
Bank loans and other borrowings	1,816,336
	2,161,477

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23. Contingent Liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

24. 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 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Contracted, but not provided for land leases and buildings	**171,420**	120,730

(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 2018 Unaudited		31 December 2017 Audited	
	Properties RMB'000	**Land use right RMB'000**	Properties RMB'000	Land use right RMB'000
Within one year	**55,467**	**19,834**	49,252	20,392
In the second to fifth years, inclusive	**173,693**	**104,585**	159,147	87,040
After five years	**137,634**	**234,676**	159,676	230,286
	366,794	**359,095**	368,075	337,718

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 2018

25. Related Party Transactions and Balances

Mr. Feng Changge is the Chairman and a director of the Company, the Controlling Shareholder 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) Transactions with related parties

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
– Advances made to Independent Aftersales Company	**75,951**	1,021,716
– Loan to Independent Aftersales Company	**–**	390,000
– Interest income from Independent Aftersales Company	**32,389**	–
	108,340	1,411,716

(b) Balances with related parties

The Group had the following significant balances with its related parties as at 30 June 2018 and 31 December 2017, respectively.

Due from related parties:

	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000
Non-trade related:		
– Yongda Hexie	**910**	910
– Independent Aftersales Company	**1,520,056**	1,411,716
	1,520,966	1,412,626

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For the six months ended 30 June 2018

25. Related Party Transactions and Balances (Continued)

(b) Balances with related parties (Continued)

Balance with Yongda Hexie is unsecured and non-interest-bearing and have no fixed repayment terms.

Balance with Independent Aftersales Company bear interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and have no fixed repayment terms and guaranteed by a shareholder of the Company.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June 2018 Unaudited RMB'000	For the six months ended 30 June 2017 Unaudited RMB'000
Short term employee benefits	**4,202**	3,578
Equity-settled share option expense	**7,064**	2,709
Post-employee benefits	**159**	149
Total compensation paid to key management personnel	**11,425**	6,436

26. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts 30 June 2018 Unaudited RMB'000	**Fair values 30 June 2018 Unaudited RMB'000**
Financial assets		
Financial assets at fair value through profit or loss	**1,277,939**	**1,277,939**

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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

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

The fair values of the finance lease receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease receivables as at 30 June 2018 was assessed to be insignificant.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2018 (Unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss:				
Unlisted equity investment	–	1,133,147	–	1,133,147
Unlisted private fund in the PRC	–	84,792	–	84,792
Wealth management products	–	60,000	–	60,000
	–	1,277,939	–	1,277,939

The Group did not have any financial liabilities measured at fair value as at 30 June 2018 and 31 December 2017.

There were no transfers between Level 1 and Level 2 fair value measurements during the period and no transfers into or out of Level 3 fair value measurements for both financial assets and financial liabilities during the six months period ended 30 June 2018.