HARMONY AUTO

和諧汽車

China Harmony New Energy Auto Holding Limited

中國和諧新能源汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03836)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

RESULTS HIGHLIGHTS:

- Our revenue for year ended December 31, 2019 amounted to approximately RMB12,621.8 million, representing an increase of 18.6% from approximately RMB10,639.9 million recorded in the corresponding period in 2018.

- Our gross profit for year ended December 31, 2019 amounted to approximately RMB1,087.1 million, representing an increase of 43.7% from approximately RMB756.5 million recorded in the corresponding period in 2018.

- The Group achieved profit attributable to owners of the parent for the year ended December 31, 2019 of RMB513.3 million. Among which, excluding the impact of independent aftersales company and FMC, profit from 4S dealership business amounted to RMB488.9 million, representing a growth of 47.4% as compared to the corresponding period of 2018.

- Basic and diluted earnings per share for the year ended December 31, 2019 were RMB0.34 and RMB0.34, respectively.

- The Board proposed a final dividend of HK7.5 cents for each ordinary share for the year ended December 31, 2019.

ANNUAL RESULTS

The board of directors (the "**Board**") of China Harmony New Energy Auto Holding Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2019. The consolidated results have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

		2019	2018
	Notes	***RMB'000***	*RMB'000*
REVENUE	4(a)	**12,621,821**	10,639,877
Cost of sales and services		**(11,534,741)**	(9,883,361)
GROSS PROFIT		**1,087,080**	756,516
Other income and gains, net	4(b)	**530,565**	942,016
Selling and distribution expenses		**(633,243)**	(549,060)
Administrative expenses		**(181,387)**	(155,172)
PROFIT FROM OPERATIONS		**803,015**	994,300
Finance costs	5	**(110,015)**	(67,686)
Share of profits of joint ventures		**14**	17
Share of losses of associates		**(20,121)**	(109,461)
PROFIT BEFORE TAX		**672,893**	817,170
Income tax expense	7	**(146,845)**	(127,186)
PROFIT FOR THE YEAR	6	**526,048**	689,984

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Other comprehensive income after tax:			
Items that will not be reclassified to profit or loss:			
Fair value changes of an equity investment at fair value through other comprehensive income		**9,292**	—
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(5,166)**	(1,290)
Other comprehensive income for the year, net of tax		**4,126**	(1,290)
Total comprehensive income for the year		**530,174**	688,694
Profit for the year attributable to:			
Owners of the Company		**513,307**	683,692
Non-controlling interests		**12,741**	6,292
		526,048	689,984
Total comprehensive income for the year attributable to:			
Owners of the Company		**517,433**	682,402
Non-controlling interests		**12,741**	6,292
		530,174	688,694
Earnings per share attributable to ordinary equity holders of the parent	8		
Basic (RMB)		**0.34**	0.45
Diluted (RMB)		**0.34**	0.44

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,691,070**	2,522,989
Prepaid land lease payments		**—**	11,097
Right-of-use assets		**525,106**	—
Intangible assets		**98,578**	104,991
Goodwill		**57,911**	57,911
Prepayments and other assets		**789,142**	1,603,233
Finance lease receivables		**130,538**	81,528
Investments in joint ventures		**5,620**	5,606
Investments in associates		**7,344**	686,222
Investments at fair value through profit or loss		**1,389,589**	1,377,410
Equity investment at fair value through other comprehensive income		**118,337**	—
Deferred tax assets		**61,244**	48,823
Total non-current assets		**5,874,479**	6,499,810
CURRENT ASSETS			
Finance lease receivables		**92,347**	50,532
Inventories	9	**1,261,867**	1,124,419
Trade receivables	10	**134,858**	123,352
Prepayments, other receivables and other assets		**2,496,613**	1,797,166
Investments at fair value through profit or loss		**88,187**	167,577
Pledged and restricted bank deposits		**68,379**	74,947
Cash in transit		**43,769**	35,964
Cash and bank balances		**1,362,063**	1,148,300
Total current assets		**5,548,083**	4,522,257

	Notes	**2019** *RMB'000*	2018 *RMB'000*
CURRENT LIABILITIES			
Bank loans and other borrowings		**2,493,699**	2,137,604
Trade and bills payables	11	**115,539**	136,317
Other payables and accruals		**675,447**	987,420
Lease liabilities		**30,408**	—
Income tax payable		**218,314**	786,111
Total current liabilities		**3,533,407**	4,047,452
NET CURRENT ASSETS		**2,014,676**	474,805
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,889,155**	6,974,615
NON-CURRENT LIABILITIES			
Lease liabilities		**510,009**	—
Deferred tax liabilities		**55,647**	53,337
Total non-current liabilities		**565,656**	53,337
NET ASSETS		**7,323,499**	6,921,278
EQUITY			
Equity attributable to owners of the parent			
Share capital		**12,519**	12,085
Reserves		**7,257,804**	6,866,308
		7,270,323	6,878,393
Non-controlling interests		**53,176**	42,885
TOTAL EQUITY		**7,323,499**	6,921,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND GROUP INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the sale 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 Cititrust Private Trust (Cayman) Limited, which is incorporated in the Cayman Islands ("**Cayman Islands**").

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

2.2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") that are relevant to its operations and effective for its accounting year beginning on January 1, 2019. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRSs**"), Hong Kong Accounting Standards ("**HKAS**") and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

HKFRS 16 "Leases"

The Group has adopted HKFRS 16 from January 1, 2019 without restating comparative information for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. As a result, the reclassifications and adjustments arising from the adoption of HKFRS 16 are therefore not reflected in the consolidated statement of financial position as at December 31, 2018, but are recognised in the opening consolidated statement of financial position as at January 1, 2019.

(a) Adjustments recognised on adoption of HKFRS 16

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Balance sheet (extract)	**December 31, 2018 As originally presented** *RMB'000*	**Adoption of HKFRS 16** *RMB'000*	**January 1, 2019 Restated** *RMB'000*
Non-current assets			
Right-of-use assets	—	578,024	578,024
Prepaid land lease payments	11,097	(11,097)	—
Prepayments and other assets	1,603,233	(36,190)	1,567,043
Non-current liabilities			
Lease liabilities	—	549,125	549,125
Current liabilities			
Other payables and accruals	987,420	(18,452)	968,968
Lease liabilities	—	25,995	25,995
Equity			
Reserves	6,866,308	(25,931)	6,840,377

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate of 6% as at January 1, 2019.

	RMB'000
Operating lease commitments disclosed as at December 31, 2018	842,567
Discounted using the lessee's incremental borrowing rate at the date of initial application	575,379
Less: short-term leases recognised on a straight-line basis as expense	(259)
Lease liabilities recognised as at January 1, 2019	575,120
Of which are:	
Current lease liabilities	25,995
Non-current lease liabilities	549,125
	575,120

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

— the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

— reliance on previous assessments on whether leases are onerous;

— the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;

— the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

— the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17.

(b) The Group's leasing activities and how these are accounted for

Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

For the 2018 financial year, leases of property, plant and equipment and prepaid land lease payments were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

— fixed payments (including in-substance fixed payments), less any lease incentives receivable;

— variable lease payment that are based on an index or a rate;

— amounts expected to be payable by the lessee under residual value guarantees;

— the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

— payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

— the amount of the initial measurement of lease liability;

— any lease payments made at or before the commencement date less any lease incentives received;

— any initial direct costs; and

— restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
— Revenue from the sale of automobiles and others	**10,912,378**	9,353,620
— Provision of after-sales services	**1,685,770**	1,279,726
Revenue from other sources		
— Finance leasing services	**23,673**	6,531
	12,621,821	10,639,877

Disaggregation of revenue from contracts with customers:

	2019	2018
Type of goods or services	***RMB'000***	*RMB'000*
Sale of automobiles and others	**10,912,378**	9,353,620
Provision of after-sales services	**1,685,770**	1,279,726
Total revenue from contracts with customers	**12,598,148**	10,633,346

	2019	2018
Timing of revenue recognition	***RMB'000***	*RMB'000*
Goods received by the customer at a point in time	**10,912,378**	9,353,620
Services rendered at a point in time	**1,685,770**	1,279,726
Total revenue from contracts with customers	**12,598,148**	10,633,346

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

	2019	2018
	RMB'000	*RMB'000*
Sale of automobiles and others	**243,620**	224,719
Provision of after-sales services	**41,521**	28,044
	285,141	252,763

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of automobiles and others

The performance obligation is satisfied upon receipt of goods by the customer and payment in advance is normally required.

Provision of after-sales services

The performance obligation is satisfied upon the services are rendered and the payment is generally settled when the services are rendered.

(b) Other income and gains, net

	2019	2018
	RMB'000	*RMB'000*
Commission income	**299,559**	319,752
Interest income from loans to an associate	**—**	71,887
Interest income from loans to equity investment at fair value through other comprehensive income	**73,224**	—
Advertisement support received from motor vehicle manufacturers	**44,461**	44,759
Gain on disposal of an associate	**32,288**	—
Interest income from loans and advances to a third party	**25,953**	8,836
Bank interest income	**11,366**	9,582
Gain on disposal of intangible assets	**2,063**	—
Government grants *(Note)*	**1,964**	3,551
Other interest income from investments at fair value through profit or loss	**3,603**	12,028
Loss on disposal of shares in an investments at fair value through profit or loss	**—**	(235,603)
Fair value gains on investments at fair value through profit or loss	**16,789**	697,004
Others	**19,295**	10,220
	530,565	942,016

Note:

Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies. There are no unfulfilled conditions or contingencies related to these grants.

5. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**90,972**	84,913
Lease interests	**34,814**	—
Less: Interest capitalised	**(15,771)**	(17,227)
	110,015	67,686

6. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2019	2018
	RMB'000	*RMB'000*
Amortisation of intangible assets	**4,400**	4,644
Amortisation of prepaid land lease payments	**—**	400
Auditor's remuneration		
Audit services	**3,300**	4,000
Non-audit services	**200**	—
Bank charges	**5,127**	6,474
Cost of sales and services:		
Cost of sales of automobiles *(Note a)*	**10,589,269**	9,135,119
Cost of aftersales services *(Note b)*	**945,472**	748,242
	11,534,741	9,883,361
Depreciation charge of property, plant and equipment	**153,983**	133,769
Fair value gains on investment at fair value through profit or loss	**(16,789)**	(697,004)
Foreign exchange difference, net	**(385)**	(1,524)
Gain on disposal of an associate	**(32,288)**	—
Gain on disposal of intangible assets	**(2,063)**	—
Loss on disposal of property, plant and equipment	**13,522**	16,649
Gain on disposal of shares in an investment at fair value through profit or loss	**—**	(235,603)
Minimum lease payments under operating leases	**—**	53,747
Staff costs including directors' emoluments		
— Wages and salaries	**237,982**	236,328
— Equity-settled share-based payments	**85,635**	25,957
— Other welfare	**56,576**	41,749
	380,193	304,034

Notes:

(a) For the year ended December 31, 2019, the impairment provision for inventories amounted to RMB Nil (2018: RMB8,125,000).

(b) The employee benefit expenses of RMB64,065,000 (2018: RMB56,033,000) were included in the cost of after-sales services.

7. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current Mainland China corporate income tax		
Provision for the year	**156,956**	122,813
Deferred tax	**(10,111)**	4,373
	146,845	127,186

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 British Virgin Islands ("**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 8.25% for the first HK$2,000,000 of the estimated assessable profits and 16.5% of the remaining estimated assessable profits arising in Hong Kong for the year ended December 31, 2019 (2018: 16.5% on the estimated assessable profits). No provision for Hong Kong Profits Tax has been made for the year ended December 31, 2019 as the Group did not generate any assessment profit arising in Hong Kong during the year (2018: Nil).

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% (2018: 25%).

8. EARNINGS PER SHARE

The calculation of the basic earnings (2018: earnings) per share attributable to ordinary equity holders of the parent is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the share award scheme.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent.

The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme and share option scheme, outstanding at the end of the reporting period.

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

	2019	2018
	RMB'000	*RMB'000*
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**513,307**	683,692
Number of Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,513,637,039**	1,528,665,022
Effect of dilution		
Weighted average number of ordinary shares:		
— Share options	**—**	15,457,384
	1,513,637,039	1,544,122,406

9. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Automobiles	**1,133,165**	992,947
Spare parts and accessories	**128,702**	131,472
	1,261,867	1,124,419

At December 31, 2019, certain of the Group's inventories with an aggregate carrying amount of approximately RMB1,014,390,000 (2018: RMB596,072,000) were pledged as security for the Group's bank loans and other borrowings.

At December 31, 2019, certain of the Group's inventories with an aggregate carrying amount of approximately RMB2,802,000 (2018: RMB17,997,000) were pledged as security for the Group's bills payable.

10. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**134,858**	123,352

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.

(a) Aging analysis

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**116,228**	108,282
3 months to within 1 year	**18,630**	15,070
	134,858	123,352

(b) Impairment of trade receivables

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	**Less than 3 months past due**	**4–9 months past due**	**Over 9 months past due**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2019					
Trade receivables					
Weighted average expected loss rate	**0%**	**0%**	**0%**	**0%**	
Receivable amount	**116,228**	**18,630**	**—**	**—**	**134,858**
Loss allowance	**—**	**—**	**—**	**—**	**—**
At December 31, 2018					
Trade receivables					
Weighted average expected loss rate	0%	0%	0%	0%	
Receivable amount	108,282	4,069	11,001	—	123,352
Loss allowance	—	—	—	—	—

11. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**106,867**	99,089
Bills payable	**8,672**	37,228
	115,539	136,317

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

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**106,620**	131,304
3 to 6 months	**3,561**	2,097
6 to 12 months	**3,014**	1,308
Over 12 months	**2,344**	1,608
	115,539	136,317

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 RMB2,802,000 (2018: RMB17,997,000) as at December 31, 2019.

12. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Proposed final — 7.5 HK cents (2018: 12 HK cents) per ordinary share	**104,128**	156,757

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The calculation of the proposed final dividend for the year ended December 31, 2019 is based on the proposed final dividend per ordinary share and the total number of ordinary shares as at the date of approval of these financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

China's automobile industry was in the course of transformation and upgrading in 2019. Affected by factors such as China-US trade tensions, switching to higher environmental protection standards, reduction of subsidies for new energy vehicles, etc., the industry is facing increased pressure. But in the second half of the year, the industry showed strong resilience and overall maintained within a reasonable range. According to statistics, the completed production and sales volume of passenger vehicles amounted to 21.36 million and 21.44 million units, respectively, representing a year-on-year decrease of 9.2% and 9.6%, respectively, in 2019. From the perspectives of sub-segments, demand for luxury vehicles continued to grow, with the total number of luxury vehicles sold in 2019 being 3.11 million, representing a year-on-year increase of 8.7%.

According to statistics released by the Ministry of Public Security of China, China's vehicle ownership reached 260 million in 2019, representing an increase of 8.8% over 2018; of which 25.78 million were newly registered ones; the number of private cars (small and micro private passenger cars) continued to grow rapidly and exceeded 200 million for the first time. There are 66 cities nationwide with a vehicle ownership exceeding 1 million, of which 30 cities exceeding 2 million, 11 cities including, among others, Zhengzhou, Xi'an, Wuhan exceeding 3 million, and 5 cities such as Beijing, Chengdu, Chongqing, Suzhou, and Shanghai exceeding 4 million. At present, the sales of luxury brands account for about 11% of the total sales of passenger cars in China, which is still relatively low as compared to other mature markets, showing a huge room for development in the future.

According to statistics, in 2019, the aggregate global sales volume of the three major brands of the BMW Group, namely, BMW, MINI and Rolls Royce, was 2.52 million, a slight increase of 1.2% as compared with 2.49 million in 2018. Among them, 723,680 BMW and MINI vehicles were delivered in the Chinese market, representing a year-on-year increase of 13.1%. In addition, the sales volume of BMW new energy vehicles soared by 34.1% compared to 2018. In 2019, a total of 200,521 Japanese vehicles bearing the brand name "Lexus" were sold in China, which soared by 25% compared to 2018 and set a new record in sales volume in China, making the brand the luxury vehicle brand showing the greatest growth rate in the Chinese market. At present, consumption is still the primary driver for China's economic growth. Consumer expenditure contributed to GDP growth of 57.8% in 2019. Therefore, we believe that the luxury vehicle market will continue to grow. There are two reasons: First, the automobile market has entered the stage of recurring user-led consumption upgrade; second, the rapid decline in prices of luxury vehicles has activated consumer purchasing power. The overall share of luxury vehicles in the Chinese automobile market will further increase. The demand of Chinese consumers still drives the market forward both in terms of increasing number of consumers and increasing number of goods purchased by each consumer, and its potential cannot be ignored. It is expected that a steady growth in terms of sales volume of luxury vehicles will be seen in 2020.

BUSINESS OVERVIEW

Continuing to focus on principal business strategy, investing more in self-operated dealership outlets, and intensifying M&A efforts

As of the date of this announcement, the Group has a total of 72 dealership outlets in operation distributing 14 luxury and ultra-luxury brands, covering 33 cities across the country, including 10 luxury brands, namely, BMW, MINI, Audi, Volvo, Land Rover, Lexus, Jaguar, Lincoln, Zinoro, and Alfa Romeo, and 4 ultra-luxury brands, namely, Rolls Royce, Bentley, Ferrari, and Maserati.

The Group has a total of 4 approved brands and 11 outlets in the pipeline, which will be located in tier-1, tier-2 and tier-3 cities in China such as Henan, Jiangxi, Inner Mongolia, etc. The strategic layout in cities located in the central and western regions further helps to enhance and consolidate the Group's position in the market, and the layout in new first-tier cities with great potential for growth helps the Group to further increase and consolidate existing market share, grow brand awareness, and enhance the market penetration rate.

The Group will keep focusing on the development of its principal businesses, proactively enhancing the operation efficiency of each outlet, improving the assessment indicators and management models of each outlet, and reinforcing the profitability of each outlet so as to drive the sales volume of new vehicles and establish well-performing outlets for each brand. Meanwhile, we capitalized on the scientific inventory management system to implement rational allocation and optimization of resources, thereby reducing the turnover days of new vehicles and controlling finance costs in an efficient manner.

Along with the overall polarization of China's passenger vehicle market, the luxury vehicle market will still maintain strong momentum and growth amidst challenges. We believe that we will perform well in 2020 by leveraging on our experience in distributing luxury vehicles for years and pushing ahead with the Company's M&A plans.

Sales volume of new vehicles of luxury brands maintain strong momentum and growth amidst challenges

For the year ended December 31, 2019, the Group recorded a sales volume of new vehicles of 32,796 units, representing an increase of 21.5% as compared with 26,998 units in 2018. As the largest dealer of BMW in the central and western regions of China and one of the leading dealers in China, in 2019, the Group sold 25,684 units of vehicles bearing the brand name "BMW" (including the brand name "**MINI**"), representing a year-on-year increase of 17.4%; and maintained strong growth in sales volume of vehicles bearing the brand name "Lexus", with the number of new vehicles sold being 3,821, an increase of 28.0% over 2018. We have also made remarkable achievements in the operation of ultra-luxury brands. During the Reporting Period, the year saw the largest-ever number of Ferrari vehicles delivered, an increase of 141.2% over 2018.

The layout of the new energy vehicle industry was successfully completed and separated

In 2019, various models of new energy vehicles from a number of domestic and foreign brands were put into mass production resulting in an increase of customers of new energy vehicles. In response to the developing trend of new energy vehicles, the Group consolidated "Harmony Auto Zhilian", a company which specialized in the sales of new energy vehicles, with "Harmony Auto Maintenance" which is also progressing gradually to mature operation in early 2019 and split it from the listed company. After the consolidation, the new company integrated the quality resources of new energy vehicle sales and after-sales services, specializing in the authorization and service network for new energy vehicles nationwide.

During the Reporting Period, the new company obtained authorization for 8 new energy vehicle brands, including BYTON, Guangzhou Automobile, Leap Motor, Weltmeister, JAC Motors, Isuzu, Skyline and AIWAYS. Currently, it has a total of 58 stores in operation, which are mainly located in tier-1 cities and new tier-1 cities in China. Regarding after-sales maintenance for new energy vehicles, the Company has been paying attention to the macroscopic trend and sub-segment of the after-sales service market, and specializing in business growth drivers brought by new traveling models like e-hailing and ride sharing. The Company has implemented strategic cooperation with Xiaojuchefu and Shouqi Limousine & Chauffeur while signing strategic cooperation agreements with seven new energy vehicle brands such as Nio and Leap Motor, to provide after-sales services of new energy vehicles in the country.

Future Outlook and Development Strategy

China's automobile market is entering the stage of structural adjustment to the industry. We expect that the development potential of China's consumer market will remain large and the luxury vehicle market will increase despite the slowdown in the passenger vehicle market. We believe that luxury brands in the future are expected to continue to benefit from consumption upgrade and be a sector with continuous positive growth. Today, the automobile sales market under the 4S store channel is more than 20 years old. Changes in the technology industry have brought both shocks and opportunities to the automobile industry. Increasingly sophisticated automobile consumers have provided new competitive advantages for the value advantage of dealer groups. 4S stores that attach great importance to consumer experience are still favored by the new generation of young consumers. We are optimistic about China's consumer market. We believe that in the next five years or even longer we will still see a steady growth of the luxury vehicle market.

As compared with the experience of the international automotive market, after the sales of new vehicles have reached a relatively stable level, the growth of vehicle ownership will continue for a long time. According to the analysis of automobile development data in developed countries, large-scale repair and maintenance will be ushered in after the vehicle age exceeds 5 years. At present, the average age of vehicles in China is 4.9 years. With the entry into the stock market, the average age of vehicles will be longer. Driven by the dual-effects of increasing vehicle ages and increasing vehicle ownership in China, the after-sale automobile market will develop at a high speed, making the after-sale market gradually become a new industry highlight. It is believed that the future after-sale automobile market, especially the after-sale service market of luxury brands, will continue to achieve rapid growth.

In 2020, we will continue to expand our brand portfolio, apply for more dealership authorization, increase our presence, and speed up the progress of M&A plans. We will continue to focus on the luxury and ultra-luxury market and increase customer retention and satisfaction as well as enhancing the efficiency and quality of the operation of the Group. We will set up special companies to continue to expand business coverage, such as automobile premium, accident car insurance, and used car business, thereby increasing profit sources, optimizing the revenue structure, and preparing for another historic development opportunity.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB12,621.8 million for 2019, representing an increase of 18.6% as compared with RMB10,639.9 million for 2018.

Revenue from sales of new vehicles amounted to RMB10,912.4 million, representing an increase of 16.7% from 2018. Revenue from after-sales and accessories business amounted to RMB1,685.8 million, representing an increase of 31.7% as compared to the year ended December 31, 2018.

Cost of sales and services

Cost of sales and services of the Group for 2019 amounted to RMB11,534.7 million, which representing an increase of 16.7% from 2018. Among them, the cost of new vehicles sales in 2019 was RMB10,589.3 million, an increase of 15.9% from RMB9,135.1 million recorded in the corresponding period in 2018. The cost of after-sales services in 2019 was RMB945.5 million, an increase of 26.4% from RMB748.2 million recorded in the corresponding period in 2018.

Gross profit and gross profit margin

Gross profit of the Group was RMB1,087.1 million for 2019, representing an increase of 43.7% as compared with RMB756.5 million in 2018. Among them, due to the market recovery this year, the gross profit of car sales in 2019 was RMB323.1 million, representing an increase of 47.9% compared to 2018. The gross profit of after-sales service in 2019 was RMB740.3 million, representing an increase of 39.3% compared to 2018.

Gross profit margin of the Group in 2019 was 8.6%, representing an increase of 1.5% from 7.1% recorded in the corresponding period in 2018. Among them, the gross profit margin of the sales of automobiles in 2019 was 3.0%, representing an increase of 0.6% compared to 2018. The gross profit margin of after-sales service in 2019 was 43.9%, representing an increase of 2.4% compared to 2018.

Selling expenses

In 2019, selling expenses of the Group amounted to RMB633.2 million, representing an increase of 15.3% from RMB549.1 million in 2018 which is basically consistent with the growth rate of new vehicles sales revenue.

Administrative expenses

As compared to RMB155.2 million in 2018, administrative expenses of the Group increased by 16.9% to RMB181.4 million in 2019 mainly due to the influence of share award scheme.

Other income and gains, net

Other income and gains, net of the Group amounted to RMB530.6 million in 2019, representing a decrease of 43.7% as compared with the corresponding period of last year. However, the amounts are basically even after deducting the impact of Independent Aftersales Company and Future Mobility Corporation Limited Cayman ("**FMC**").

Other income and gains mainly comprises of 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, gain on disposal of assets as well as fair value gain on financial assets at fair value through profit or loss.

Finance costs

The Group's finance costs for 2019 was RMB110.0 million, representing an increase of 62.5% from RMB67.7 million for 2018, primarily due to the adoption of HKFRS 16. Excluding the impact of HKFRS 16, financing costs from bank loans and other borrowings in 2019 increased by 11.1% compared to 2018.

Profit from operations

Based on the above, the Group's profit from operations for 2019 was RMB803.0 million as compared to RMB994.3 million in 2018.

Profit for the year attributable to the owners of the parent

The Group's profit for the year attributable to owners of the parent for 2019 was RMB513.3 million. Among which, excluding the impact of Independent Aftersales Company and FMC, profit from 4S dealership business amounted to RMB488.9 million, representing a growth of 47.4% as compared to the corresponding period of 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group's primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and to fund our 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 December 31, 2019, cash and deposits of the Group totaled RMB1,362.1 million.

In 2019, our net cash generated from operating activities was RMB235.9 million, net cash used in investing activities was RMB272.5 million, and net cash used generated from financing activities was RMB25.5 million.

Taking into account the Group's existing cash and cash equivalents, anticipated cash flow 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 December 31, 2019, the Group had net current assets of RMB2,014.7 million.

Capital expenditure

In 2019, the Group's capital expenditure was RMB426.0 million, which was primarily used for the expenditure and prepayment for purchase of items of property, plant and equipment in connection with the establishment of new outlets.

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Inventories increased by 12.2% to RMB1,261.9 million as at December 31, 2019 from RMB1,124.4 million as at December 31, 2018.

The Group's average inventory turnover days for 2019 were 37 days, decreased by 7 days (2018: 44 days) as compared to 2018 due to Group's effective inventory management.

Bank loans and other borrowings

As at December 31, 2019, the Group had bank loans and other borrowings in the aggregate amount of RMB2,493.7 million, representing a year-on-year increase of 16.7% as compared to RMB2,137.6 million as at December 31, 2018.

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Bank loans repayable		
Within one year	1,486,503	1,281,883
Other borrowings repayable:		
Within one year	1,007,196	855,721
	2,493,699	2,137,604

As at December 31, 2019, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 35.9%, representing a decrease of 1.3% as compared with that of December 31, 2018.

As at December 31, 2019, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Company's assets. The Company's assets, subject to these mortgages or pledges as at December 31, 2019, mainly consisted of (i) inventories in the amount of RMB1,014.4 million; (ii) property, plant and equipment in the amount of RMB16.8 million; and (iii) land use rights in the amount of RMB10.7 million. In addition, certain of the Group's bank loans and other borrowings were mainly guaranteed by certain subsidiaries of the Company, certain Directors of the Company and legal representative of certain subsidiaries of the Company, as at December 31, 2019.

Contingent liabilities

As at December 31, 2019, we 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 lending rates published by the People's Bank of China. The Group does not currently use any derivative instruments to manage its interest rate risk.

All of the Group's revenue, cost of revenue and expenses are denominated in Renminbi. The Group also use Renminbi as its reporting currency. The Group is of the view that its operations are currently not subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge its exposure to risks.

Employees and remuneration policies

As at December 31, 2019, the Group had a total of 3,589 employees (2018: 3,693). The change in number of employees was mainly due to the optimization of the Group's staff structure and the improvement of overall management efficiency. Relevant staff cost for 2018 was approximately RMB380.2 million (including employee share incentive of RMB85.6 million), while the staff cost was approximately RMB304.0 million for 2018 (including employee share incentive of RMB26.0 million). The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations. Eligible participants of the share option scheme include employees of the Company and its subsidiaries. The share option scheme became effective on June 26, 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. As of December 31, 2019, the Company had 82,631,000 share options outstanding under the share option scheme, which represented approximately 5.25% of the Company's share in issue as at that date.

For further details of the share option scheme, please refer to the 2019 Annual Report to be published by the Company in due course. The Group will regularly review its compensation policies and employee benefits with reference to market practices and individual performance.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2019, the Company repurchased a total of 5,852,500 of ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$18,413,850 (excluding transaction cost). The 5,852,500 repurchased shares were subsequently cancelled on June 6, 2019. Details of the shares repurchased during the reporting period are set out as follows:

Month of repurchase	**Number of shares**	**Repurchase price per share**		**Aggregate consideration** *(HK$)* **(excluding transaction cost)**
		Highest *(HK$)*	**Lowest** *(HK$)*	
February 2019	5,852,500	3.22	3.01	18,413,850
Total	5,852,500			18,413,850

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 year ended December 31, 2019.

EVENTS AFTER THE REPORTING PERIOD

In response to the outbreak of Corona Virus Disease 2019 (COVID-19) in early 2020, a series of prevention and control measures have been implemented across China. The Group will closely monitor the developments of Corona Virus Disease 2019 (COVID-19) and assess its impact on the Group's financial position and operating results.

FINAL DIVIDEND

The Board proposed a final dividend of HK7.5 cents for each ordinary share for the year ended December 31, 2019. The final dividend shall be subject to approval of the shareholders at the forthcoming annual general meeting and if approved, the final dividend shall be paid on or before August 13, 2020 to the shareholders of the Company. Further announcements will be published for details on the closure of register of members to determine the entitlement of shareholders to the proposed final dividend.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended December 31, 2019, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange, save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the 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 was not able to attend the annual general meeting of the Company held on June 13, 2019 due to 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "**Model Code for Securities Transactions by Directors of Listed Issuers**" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors confirmed that, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2019.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended December 31, 2019 as set out in the preliminary announcement have been agreed by the Group's auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2019. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the annual results for the year ended December 31, 2019.

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

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

APPRECIATION

Relying on the long-term loyalty and contributions of employees in various departments, as well as the trust and support of shareholders and business partners, the Group can grow and improve in the increasingly competitive and challenging environment. The Board wishes to express its sincere gratitude to all parties for their outstanding contributions to the Group.

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

Zhengzhou, the People's Republic of China
March 27, 2020

As of the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Liu Fenglei, Ms. Ma Lintao, Ms. Feng Guo and Mr. Han Yang; and the independent non-executive directors of the Company are Mr. Wang Nengguang, Mr. Liu Zhangmin, Mr. Xue Guoping and Mr. Lau Kwok Fan.