HARMONY AUTO

和諧汽車

China Harmony Auto Holding Limited

中國和諧汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03836)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

RESULTS HIGHLIGHTS

For the six months ended 30 June 2020:

- The Group recorded the new vehicle sales at 14,613, representing a slight decrease of 5.5% compared with the same period of the last year, of which, the Group sold 4,897 new vehicles in the first quarter, representing a decrease of 26.7% compared with the same period of 2019; the Group sold 9,716 new vehicles in the second quarter, representing an increase of 10.6% compared with the same period of 2019.
- The revenue from the main business of the Group stood at RMB5,754.7 million in the first half of 2020, representing a slight decrease of 2.3% compared with the same period of the last year, of which, the revenue in the first quarter was RMB1,960.9 million, representing a decrease of 21.9% compared with the same period of the last year; the revenue in the second quarter was RMB3,793.8 million, representing an increase of 12.2% compared with the same period of the last year. The revenue of selling new vehicles dropped by a slight of 0.5% compared with the same period of last year to RMB5,021.4 million of this year. The revenue from after-sales service and brand businesses recorded a decrease of 13.6% to RMB717.9 million.
- The net cash generated from operating activities of the Group was RMB729.1 million, representing an increase of 26.9% compared with the same period of the last year.
- The profit of the period attributable to owners of the parent company of the Group was RMB234.8 million, of which, 4S outlets contributed a profit of RMB236.5 million, representing a decrease of 15.7% compared with the same period of the last year.
- The basic earnings and diluted earnings per share was RMB0.15 and RMB0.15, respectively.

INTERIM RESULTS

The board of directors (the "**Board**") of China Harmony Auto Holding Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020.

The unaudited consolidated results have been reviewed by the Audit Committee of the Company (the "**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
	NOTES	**2020**	2019
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	5	**5,754,675**	5,891,521
Cost of sales		**(5,234,899)**	(5,313,934)
Gross profit		**519,776**	577,587
Other income and gains, net	6	**206,550**	246,136
Selling and distribution expenses		**(284,131)**	(308,440)
Administrative expenses		**(75,753)**	(75,121)
Finance costs	7	**(57,075)**	(55,532)
Share of profits of joint ventures		**9**	8
Share of losses of associates		**(1,736)**	(21,059)
Profit before taxation	8	**307,640**	363,579
Income tax expense	9	**(65,388)**	(69,621)
Profit for the period		**242,252**	293,958
Profit for the period, attributable to:			
Owners of the Company		**234,786**	286,238
Non-controlling interests		**7,466**	7,720
		242,252	293,958
Earnings per share	11		
— Basic		**RMB0.15**	RMB0.19
— Diluted		**RMB0.15**	RMB0.19

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**242,252**	293,958
Other comprehensive (expense) income		
Exchange differences on translation of foreign operations	**(23,739)**	4,741
Total comprehensive income for the period	**218,513**	298,699
Total comprehensive income for the period attributable to:		
Owners of the Company	**211,047**	290,979
Non-controlling interests	**7,466**	7,720
	218,513	298,699

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	NOTES	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**2,777,356**	2,691,070
Right-of-use assets		**492,044**	525,106
Intangible assets		**139,461**	98,578
Goodwill		**141,791**	57,911
Prepayment and other assets		**634,844**	789,142
Finance lease receivables		**158,792**	130,538
Investment in joint ventures		**5,629**	5,620
Investment in associates		**5,608**	7,344
Investment at fair value through profit or loss		**1,389,589**	1,389,589
Equity investment at fair value through other comprehensive income		**118,337**	118,337
Deferred tax assets		**78,422**	61,244
		5,941,873	5,874,479
Current assets			
Finance lease receivables		**110,705**	92,347
Inventories	12	**1,025,138**	1,261,867
Trade receivables	13	**125,236**	134,858
Prepayments, other receivables and other assets	14	**2,466,835**	2,496,613
Investments at fair value through profit or loss		**88,187**	88,187
Pledged and restricted bank deposits		**88,865**	68,379
Cash in transit		**39,591**	43,769
Cash and bank balances		**1,801,591**	1,362,063
		5,746,148	5,548,083

	NOTES	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Current liabilities			
Bank loans and other borrowings	16	**2,408,103**	2,493,699
Trade and bill payables	15	**222,484**	115,539
Other payables and accruals		**784,298**	675,447
Lease liabilities		**51,197**	30,408
Income tax payable		**236,474**	218,314
		3,702,556	3,533,407
Net current assets		**2,043,592**	2,014,676
Total assets less current liabilities		**7,985,465**	7,889,155
Capital and reserves			
Share capital		**12,519**	12,519
Reserves		**7,359,088**	7,257,804
Equity attributable to owners of the Company		**7,371,607**	7,270,323
Non-controlling interests		**55,470**	53,176
Total equity		**7,427,077**	7,323,499
Non-current liabilities			
Lease liabilities		**491,672**	510,009
Deferred tax liabilities		**66,716**	55,647
		558,388	565,656

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL INFORMATION

China Harmony Auto Holding Limited (formerly known as 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.

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**"). Eagle Seeker Company Limited is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the shares held by Eagle Seeker Company Limited. Eagle Pioneer Company Limited is wholly owned by Cititrust Private Trust (Cayman) Limited. Accordingly, Cititrust Private Trust (Cayman) Limited is deemed to have interest indirectly through Eagle Seeker Company Limited, in the shares held by Mr. Feng Changge (the Chairman and a director of the Company, the "**Controlling Shareholder**"), who is the founder of the trust of Cititrust Private Trust (Cayman) Limited.

The condensed consolidated interim financial information are presented in Renminbi ("**RMB**"), unless otherwise stated.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The condensed consolidated financial statements do not include all the information required for a complete set of Hong Kong Financial Reporting Standards financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value at the end of reporting period.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are same as those presented the Group's annual consolidated financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts of application on Amendments to Hong Kong Accounting Standard 1 ("HKAS") 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

4. SEGMENT INFORMATION

The Group has one operating segment: the sale of automobiles and provision of after-sales services. The operating segment is identified on the basis of internal reports about components of the Group that are regularly reviewed by the Company's chief executive officer, the chief operating decision maker ("**CODM**"), for the purpose of allocating resources to segments and assessing their performance. No operating segments have been aggregated in arriving at reportable segments of the Group.

5. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Revenue from the sale of automobiles	**5,021,405**	5,048,817
Provision of after-sales service and others	**717,944**	831,087
Revenue from other sources		
Finance leasing services	**15,326**	11,617
	5,754,675	5,891,521

Disaggregated revenue information

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Types of goods or services		
Sale of automobiles and others	**5,021,405**	5,048,817
Provision of after-sales services	**717,944**	831,087
	5,739,349	5,879,904
Timing of revenue recognition		
Goods received by the customer at a point in time	**5,021,405**	5,048,817
Services rendered at a point in time	**717,944**	831,087
	5,739,349	5,879,904

6. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Commission income	**136,757**	128,117
Advertisement support received from motor vehicle manufacturer	**26,798**	19,725
Bank interest income	**8,116**	11,331
Interest income from loans to an associate	**—**	22,880
Interest income from loans to third parties	**23,872**	31,109
Gain on disposal of an associate (Note)	**—**	26,705
Gain on disposal of an intangible assets	**—**	2,027
Others	**11,007**	4,242
	206,550	246,136

Note:

On 18 April 2019, the Group entered into an agreement with an independent third party to dispose of 29% of equity interest in 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**"). The associate provides after-sales services in the PRC.

Upon the completion of the disposal, the Group's equity interest in the associate was reduced from 48.8% to 19.8% and ceased to be an associate of the Group, and the remaining equity interest was accounted for as an equity investment at fair value through other comprehensive income which is stated as fair value in the consolidated statement of financial position.

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans and other loans	**40,430**	40,969
Interest on lease liabilities	**16,645**	14,563
	57,075	55,532

8. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation for property, plant and equipment	**86,070**	78,717
Depreciation for right-of-use assets	**33,062**	28,024
Amortization for intangible assets	**2,408**	2,242
Loss on disposal of property, plant and equipment	**3,937**	7,368
Advertisement and business promotion expenses	**18,810**	27,437
Bank charges	**1,191**	2,093
Minimum lease payments under operating leases	**—**	7,613
Foreign exchange differences, net	**(835)**	(219)
Employee benefit expense (including directors' and chief executive officer's remuneration)		
Wages and salaries	**110,978**	112,493
Equity-settled share option expenses	**3,393**	6,466
Other welfare	**15,733**	29,236
	130,104	148,195
Cost of sales of automobiles	**4,835,690**	4,849,554
Cost of after sales-services and others	**399,209**	464,380

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The charge (credit) comprises:		
PRC Enterprise Income Tax	**82,019**	74,858
Deferred tax credit	**(16,631)**	(5,237)
	65,388	69,621

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 16.5% (2019: 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% (2019: 25%).

10. DIVIDENDS

At the annual general meeting held on 15 June 2020, a final dividend of HK$0.075 (equivalent to approximately RMB0.069) per ordinary share was approved, for a total of HK$118,099,738.35 (equivalent to approximately RMB108,042,000). The dividend was paid on 13 August 2020.

The Board of Directors recommends not to declare any interim dividend for the six months ended 30 June 2020.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings for the purpose of calculating basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	**234,786**	286,238

	Number of shares Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,574,663,177**	1,521,791,942
Effect of dilutive potential shares:		
— Share options	**—**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,574,663,177**	1,521,791,942

Diluted earnings per shares for the period ended 30 June 2020 was the same as basic earnings per shares since all potential ordinary shares are anti-dilutive as the conversion of potential ordinary shares in relation to the share options has an anti-dilutive effect to the basic earnings per shares.

12. INVENTORIES

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Automobiles	**870,146**	1,133,165
Spare parts and accessories	**154,992**	128,702
	1,025,138	1,261,867

At 30 June 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB425,609,000 (31 December 2019: RMB1,014,390,000) were pledged as security for the Group's bank loans and other borrowings.

At 30 June 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB101,184,000 (31 December 2019: RMB2,802,000) were pledged as security for the Group's bills payable.

13. TRADE RECEIVABLES

	At 30 June 2020 *RMB'000* (Unaudited)	At 31 December 2019 *RMB'000* (Audited)
Trade receivables	**125,236**	134,858

The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period:

	At 30 June 2020 *RMB'000* (Unaudited)	At 31 December 2019 *RMB'000* (Audited)
Within 3 months	**107,145**	116,228
3 months to within 1 year	**18,091**	18,630
	125,236	134,858

Before accepting any new customer, the Group assesses the potential customer's credit quality and pre-sets maximum credit limit for each customer. Limits and credit quality attributed to customers are reviewed regularly. Payment terms with customers are mainly on credit together with deposits received in advance. Invoices are normally payable within 30 days to 60 days from issuance, except for certain well established customers, where the terms are extended to 3 to 4 months or more.

14. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	At 30 June 2020 *RMB'000* **(Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Prepayments to suppliers	**570,301**	678,392
Rebate receivables	**861,261**	852,802
Loan to a third party	**305,275**	260,000
Dividend receivable	**—**	1,624
Amounts due from related party	**2,463**	2,463
Advances to and interest receivable from Independent Aftersales Company	**350,049**	357,568
VAT recoverable	**120,629**	134,012
Others	**256,857**	209,752
	2,466,835	2,496,613

15. TRADE AND BILLS PAYABLES

	At 30 June 2020 *RMB'000* **(Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Trade payables	**94,330**	106,867
Bills payable	**128,154**	8,672
	222,484	115,539

The following is an aging analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	At 30 June 2020 *RMB'000* **(Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Within 3 months	**207,570**	106,620
3 to 6 months	**6,348**	3,561
6 to 12 months	**3,203**	3,014
Over 12 months	**5,363**	2,344
	222,484	115,539

The average credit period on purchases of goods ranges from 30 to 90 days.

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 RMB101,184,000 as at 30 June 2020 (31 December 2019: RMB2,802,000).

16. BANK LOANS AND OTHER BORROWINGS

	At 30 June 2020 (Unaudited)		At 31 December 2019 (Audited)	
	Effective interest rate *(%)*	**Amount** *RMB'000*	Effective interest rate *(%)*	Amount *RMB'000*
Current				
Bank loans	**4.4–5.7**	**1,823,785**	4.3–6.1	1,486,503
Other borrowings	**3.7–8.5**	**584,318**	4.0–8.5	1,007,196
Total borrowings		**2,408,103**		2,493,699

All the bank and other borrowings are repayable within one year as at 30 June 2020 (2019: Same).

17. BUSINESS COMBINATION

During the period, the Group acquired 100% equity interest in Kunming Zhongzhiyuan Dili Automobile Sales Service Co. LTD (昆明中致遠帝利汽車銷售服務有限公司) and the businesses together with their assets and liabilities of Jiujiang Zhongshunbao Automobile Sales Service Co. LTD (九江中順寶汽車銷售服務有限公司), Nanchang Baoshunxing Automobile Sales Service Co. LTD (南昌寶順行汽車銷售服務有限公司) and Shijiazhuang Harmony Binchi Automobile Sales Service Co. LTD (石家莊和諧賓馳汽車銷售服務有限公司), which are principally engaged in the sales of automobiles and after-sales service business in Mainland China, from certain third parties at a total consideration of RMB154,057,000.

The acquisition has been accounted for as acquisition of business using the acquisition method. The provisional goodwill and intangible assets arising from the acquisition is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the independent valuation to assess the provisional fair value of the identifiable assets acquired. They may be adjusted upon the completion of initial accounting year which shall not exceed one year from the acquisition date.

Consideration transferred

	RMB'000
Cash	154,057

Assets and liabilities recognised at the date of acquisition (determined on a provisional basis)

	RMB'000
Bank balances and cash	175
Trade and other receivables	11,354
Inventories	5,699
Property. plant and equipment	41,009
Provisional intangible assets	42,084
Trade and other payables	(13,882)
Contract liabilities	(5,740)
Deferred tax liabilities	(10,522)
	70,177

Goodwill arising on acquisition (determined on a provisional basis)

	RMB'000
Consideration transferred	154,057
Less: Fair value of identifiable net assets acquired	70,177
	83,880

Goodwill arose on the acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition

	RMB'000
Consideration paid in cash	154,057
Less: Bank balances and cash acquired	175
	153,882

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The sudden outbreak of the COVID-19 pandemic in 2020 posed severe challenges to the domestic and global economy and brought unprecedented impact to the automobile market. China's GDP growth dropped to -1.6% in the six months ended 30 June 2020, according to the National Bureau of Statistics. Among them, the economic growth in the second quarter turned from negative to positive, with a year-on-year growth of 3.2%, up 10 percentage points from the first quarter. China's passenger car market saw retail sales of 7.7 million units in the first half of the year, a decrease of 22.5% year-on-year, according to The China Passenger Car Association (CPCA). With the pandemic gradually under control, the luxury car market has been the first to usher in a V-shaped reversal. With the exception of February, when the luxury car market declined due to the pandemic, for the remainder of the first half of the year the luxury car market has achieved growth against the trend. Data shows that luxury brands have achieved continuous month-on-month growth since March, and the retail sales of luxury cars increased by 16% year-on-year in April, 28% year-on-year in May, and 27% year-on-year in June, reaching a record high of 14.8% market share. Of the luxury, joint venture and independent sectors, only the luxury sector returned to positive year-on-year growth in the first half of the year, with retail sales of 1.05 million units, an increase of 1% year on year, while joint venture and independent brands dropped by 22% and 30% respectively.

According to a report by the China Automobile Dealers Association (CADA), consumers have become more willing to spend on private cars since the end of February this year, with 60% of the consumers surveyed saying they will buy a car within three months. In May, the consumer's willingness to buy a car tripled from that of the same period last year. Safety, quality and cost performance have become the most important factors for the consideration of prospective car buyers in recent years, and more and more consumers prefer the luxury brand vehicles. The pandemic has caused the luxury car consumers to pay more attention to health and quality of life, thus stimulating their demand for luxury cars. Many luxury car brands are also extending their product lines. Major luxury brands have successively launched a number of entry-level models with a price of around RMB200 thousand. In addition, the penetration rate of auto financing loans is getting higher and higher, which significantly lowers the threshold for luxury car purchase, and drives the increase of the share of luxury cars in the passenger car market. Despite the continuous decline of passenger car sales in China in these two years, German and Japanese car companies have increased their sales, and their market share continues to rise. For the six months ended 30 June 2020, sales of BMW brands (including MINI) in China reached 329 thousand units, a decrease of 5.8% year-on-year, while the sales of BMW brands increased by 17.1% year-on-year in the second quarter. BMW has adjusted its products and improved its sales quality in the past year, and brand discounts have rebounded greatly. It is believed that BMW brand will usher in the best period in the near future. The Lexus brand was one of the few brands to show positive growth in the first half of the year, with national sales of 97 thousand units in the first half, with an increase of 4.8% year on year, through effective price and order controls.

The automobile industry is a pillar industry of the national economy. Stabilizing and expanding automobile consumption is the top priority to boost consumption. With the help of central and local policies, the auto market hit by the pandemic has recovered rapidly. Ministries and commissions of the Central Government have successively issued favorable policies such as VAT exemption for second-hand cars, delay of implementation of the national emission standards VI, and extension of new energy subsidies. Local governments have responded positively. Since 2020, more than 30 provinces and cities have promulgated more than 160 policies to promote automobile consumption, covering consumers, dealers and manufacturers. A number of cities that restricted car purchase have lifted the restrictions on purchase, and increased the release of licenses. The implementation of favorable policies has played a significant role in promoting and supporting the car market and stimulating consumer demand. China is the world's second largest economy, and the world's most populous country with a population of 1.4 billion, with the world's largest middle-income group of more than hundreds of millions of people. According to the National Bureau of Statistics, final consumption expenditure contributed 57.8% of GDP growth in 2019, making consumption the biggest driver of economic growth. This has laid a solid foundation for China's super-large market advantages and potential domestic demand. At present, China's household consumption structure is constantly improving, which has shifted from quantity satisfaction to quality improvement. The consumer demand for durable goods, automobiles and other bulk commodities is growing rapidly.

BUSINESS OVERVIEW

As of the date of this announcement, the Group has a total of 75 dealership outlets in operation covering 36 cities across the country, distributing 14 luxury and ultra-luxury brands, including 10 luxury brands, namely, BMW, MINI, Lexus, Audi, Jaguar, Land Rover, Volvo, Lincoln, Zinoro, and Alfa Romeo, and 4 ultra-luxury brands, including Rolls Royce, Ferrari, Maserati and Bentley.

The Group has been authorized to build 8 dealership outlets covering core luxury and ultra-luxury brands, including BMW, Lexus, Ferrari, Bentley etc.. The new authorized dealership outlets cover provincial capitals such as Nanchang, Wuhan, Nanjing etc., as well as cities with high growth potential, such as Cangzhou and Sanmenxia. The strategic brand and geographic deployment can, on one hand, further consolidate the Group's leading position in the central and western regions, and on the other hand improve its visibility and penetration throughout the nation.

Affected by the spread of the pandemic, the Group's new car sales and after-sales revenue were greatly impacted in the first quarter, recording a year-on-year decline of 26.7% and 32.2% respectively. The resumption of production and work in central and western regions lagged behind that in eastern and southern China. However, thanks to the management team's rapid response ability and correct industry judgment after the outbreak, it has become one of the few dealer groups that can quickly recover from the impact. The new car sales business was the first to recover, with quarter-on-quarter growth of more than 10% in the second quarter. For the six months ended 30 June 2020, new car sales reached 14,613 units, a decrease of 5.5% from a year earlier. Sales of BMW (including MINI), the group's largest brand by distribution, decreased by 5.4%, which is in-line with the national average, while Lexus, the second-largest brand, rose by 7.4%. Ultra-luxury brands also performed well, with Bentley sales up 150% and Rolls-Royce sales increased by 21% year on year.

In the first half of this year, the Group continued to expand and optimize our brand portfolio, and actively applied for more dealership outlet authorizations and expanded the dealership network. We continued to explore the luxury car markets in China by deploying more flagship brands, including Lexus, BMW, Bentley, Ferrari and other leading brands. With regard to after-sales business, we made great efforts to improve the quantity and satisfaction of customers, and improved the efficiency and quality of management and operation of the Group. At the same time, we actively strengthened the IT construction, emphasized the data management, so as to intricately improve the overall management ability, reduce the management cost and control the operation risk. Facing the challenges and opportunities brought by the transformation and upgrade of China's automobile market, the Group believes that with years of in-depth development of luxury brands and regional advantages, the dealership business will continue to grow steadily in the future.

Future Outlook and Development Strategies

Thanks to China's rapid economic growth and the booming overall car market, the luxury car market in China has grown rapidly over the past 11 years, with an average compound annual growth rate of 22%, far outpacing the average compound annual growth rate of 8% for the overall passenger car market. This year, the market has quickly recovered to positive growth after the outbreak of the pandemic, which shows that the fundamentals of China's luxury car market have not changed and the market still has rigid demand. After the pandemic, the global economic landscape will undergo another major transformation. China was the first to be hit by the pandemic, the first to control the pandemic, and the first to resume work and production. China's economic recovery and foundation reconstruction are of symbolic significance for the global economy. Although there are still many uncertainties in the second half of the year, under the combined effect of favorable macro policies and active adjustment of market players, the repressed demand for consumption and investment will be fully released, and the economic growth is expected to rebound.

China has surpassed the United States to become the world's largest luxury car market, in terms of the annual sales of luxury cars, while the penetration rates of luxury cars vary by province. The penetration rates in Shanghai, Beijing, Jiangsu and Zhejiang have exceeded 20%, reaching the level of overseas developed countries, but other provinces such as Anhui, Jiangxi and Henan are still below the national average. Therefore, we believe that China's luxury car market still has room to improve. With the sustained economic development of all provinces and cities and the improvement of per capita income, the penetration rate of luxury cars in China will further increase in the next decade. The overall purchasing power of Chinese consumers continues to increase thanks to the domestic economic development. The extension of product line and decline of price of luxury car brands, the appearance of diversified auto financing products as well as other factors have further lowered the threshold of luxury car purchase and expanded the target audience of luxury car. With the gradual increase of car ownership scale, people's demand for vehicles has also changed. The demand for passenger cars has gradually shifted from the demand for first purchase to the demand for replacement purchase and additional purchase. The demand for replacement cars has gradually become the main factor driving the sales of cars.

The huge car ownership in China has produced a huge demand for maintenance, car detailing, car insurance, automotive supplies and other diversified services. With the slowdown of automobile sales growth, in-depth development and mining of the industrial value of the aftermarket has become the focus of the development of the automobile market, which is conducive to the more differentiated development of the industry. In the future, with the steady expansion of car ownership and the increase of vehicle age in China, consumers will have a stronger demand for maintenance and repair, and the scale of automobile aftermarket industry will further grow. With the domestic automobile market gradually becoming mature, the rapid development period of automobile aftermarket in China is approaching.

This year is full of challenges and opportunities for enterprises. In the post-pandemic period, the market competition will be more intense, and the survival of the fittest in the future automobile market is inevitable. The Group will assess the situation, choose the approach most appropriate for its survival and development according to its own characteristics, and actively and continuously implement the following development strategies, so as to further enhance the income scale and profitability and create greater value for shareholders:

- Focus on main business, and focus on competitive brands

- Actively develop dealership business through self-construction and mergers and acquisitions to promote internal growth and new store profitability

- Increase customer stickiness and dependence, improve automobile aftermarket output value

- Enhance fine management, strengthen the internal operation ability, and pursue efficient and high-quality business

FINANCIAL OVERVIEW

Revenue

Due to the impact of the pandemic in China during upon us in the first quarter of this year, the Group registered a revenue of RMB5,754.7 million in the first half of 2020, representing a slight decrease of 2.3% compared with that of RMB5,891.5 million for last year. Among which, the sales revenue of new vehicles saw a mere drop of 0.5% from RMB5,048.8 million to RMB5,021.4 million, accounting for 87.3% of the total revenue of the first half of 2020. While the after-sales services and brand business only recorded a revenue of RMB717.9 million, representing a decline of 13.6% compared with that for the same period in 2019 and accounting for 12.5% of the total revenue of the first half of 2020.

As for luxury car brands, the sales revenue of Lexus and BMW (including MINI) respectively recorded an increase of 6.5% and 3.0%, jointly accounting for 86.3% of the Group's total revenue from new cars. In respect of ultra-luxury brands, Rolls-Royce and Bentley respectively registered an increase of 15.9% and 157.3% in sales of new cars sales.

Cost of sales and services

The cost of sales and services of the Group saw a slight decrease from RMB5,313.9 million of the first half of 2019 to RMB5,234.9 million, or 1.5%, of the same period of 2020. The cost of new car sales and after-sale services were respectively RMB4,835.7 million and RMB399.2 million, representing a decrease of 0.3% and 14.0%.

Gross profit and Gross profit margin

The gross profit of the Group decreased by 10.0% from RMB577.6 million in the first half of 2019 to RMB519.8 million in the same period of 2020. The gross profit of selling new vehicles dropped by 6.8% from RMB199.3 million in the first half of 2019 to RMB185.7 million in the same period of 2020. The gross profit of after-sale services and brand businesses decreased by 13.1% from RMB366.7 million in the first half of 2019 to RMB318.7 million in the same period of 2020.

The Group's gross profit margin in the first half of 2020 stood at 9.0%, representing a decrease of 0.8% compared with 9.8% in 2019, during which, the gross profit of selling new vehicles in the first half of 2020 was 3.7%, representing a decrease of 0.2% compared with that of 2019. The gross profit of after-sale services in the first half of 2020 was 44.4%, representing an increase of 0.3% compared with that of 2019.

Administrative expense

The Group's administrative expense in the first half of 2020 was RMB75.8 million, which is basically similar to that of 2019.

Other income and gains, net

In the first half of 2020, the other net income and gains of the Group was RMB206.6 million, which registered a slight decrease of 5.9% compared with that of the last year after deducting the numbers from the independent after-sales company. Other income and gains mainly came from the commission (of providing services by being an insurance agent and the agent offering car-related financial services), the gain from trading second-hand vehicles, the advertisement revenue from car manufacturers and interest income.

Finance costs

The Group's finance costs in the first half of 2020 is RMB57.1 million, representing an increase by 2.8% compared to that of 2019, RMB55.5 million. The increase is attributed to the increase of the average balance of borrowings in the reporting period. With the growing of the Group's business and the number of 4S outlets, the Group also sees an increase of its finance costs used to maintain regular operation.

Operation profit

To conclude, the operation profit of the Group in the first half of 2020 is RMB366.4 million, while the figure of 2019 stood at RMB440.2 million.

Profit attributable to the owners of the parent

In the first half of 2020, the profit attributable to the owners of the parent is RMB234.8 million, representing a decrease of 18.0% compared with that of 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group mainly uses cash to purchase passenger cars and supporting components, set up and acquire new distribution outlets and support their daily operation. Short-term bank loans and the cash generated from operation activities are the cash sources of the Group. In the future, the Group will also, if it has opportunities, raise funds in the capital market to provide liquidity for potential major acquisitions.

As at 30 June 2020, the total cash and deposits of the Group is RMB1,801.6 million. In the first half of 2020, the net cash generated from operation activities of the Group is RMB729.1 million; the net cash used for investment activities is RMB118.5 million; the net cash used for financing activities is RMB173.6 million.

Net current assets

As at 30 June 2020, the net current assets of the Group is RMB2,043.6 million, representing an increase of 1.4% from RMB2,014.7 million as at 31 December 2019.

Capital expenditure

The Group's capital expenditure comprises of its expenses on plant, equipment, property and the assets with using rights. In the first half of 2020, the Group's capital expenditure (mainly used as the expenses and prepayments to purchase the property, plant and equipment for setting up new outlets) stands at RMB166.3 million (the same period of 2019: RMB146.3 million). The reason of the increase is that we have acquired four dealers and paid for the project expenses for new authorized stores under construction.

Inventory

The inventories of the Group are mainly passenger cars and supporting components. During the period, the inventories decreased by RMB236.8 million from RMB1,261.9 million as at 31 December 2019 to RMB1,025.1 million as at 30 June 2020. The Group recorded the decrease of the inventories, and that's mainly because all of the outlets have strengthened the management on their orders in relation to new passenger cars and after-service products.; the headquarter of the Group have put in place a real-time system for the inventories to provide early warning, supervise and manage the inventories and resources among distribution outlets were re-distributed and adjusted so as to maintain a rational level of the inventory balance.

The Group's average turnover days for inventories in the first half is 39.9 days, while the figure in the first half of 2019 is 36.3 days. The Group registered an increase of the turnover days for mainly two reasons. The first is that the inventory at the end of June 2019 is relatively low due to the upgrade from the No. 5 Emission Standard to No. 6 Emission Standard in the first half of 2019. The second reason is that the Group has intentionally stored more imported vehicles from Europe to provide a stable supply for the sales of such cars in the second half of 2020, in response to the risk that a second wave of the pandemic may occur in Europe.

Bank loans and other borrowings

As at 30 June 2020, the total bank loans and other borrowings of the Group is RMB2,408.1 million, representing a decrease of 3.4% compared to the figure on 31 December 2019, RMB2,493.7 million.

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Bank loans		
should be repaid within one year	**1,823,785**	1,486,503
Other borrowings:		
should be repaid within one year	**584,318**	1,007,196
Total	**2,408,103**	2,493,699

As at 30 June 2020, the gearing ratio of the Group (the result of total liabilities divided by total assets) is 36.5%, representing an increase of 0.6 percentage point than that at 31 December 2019, 35.9%.

Contingent liabilities

As at 30 June 2020, the Company has no material contingent liabilities or guarantees.

Interest rate risk and foreign exchange risk

The Group is exposed to the risks arising from the fluctuation of the loan rates. The rising of the loan rates may incur additional borrowing costs of the Group. If this is the case, then it may impose adverse effect upon the Group's finance costs, profit and financial position. The loan rates and overdraft rates of domestic banks are determined by the benchmark lending rates published by the People's Bank of China. As until now, the Group has not used any financial derivatives to hedge the Company's interest rate risks.

All of the Group's revenue, cost of sales and expenses are denominated in Renminbi which is also the currency the Group uses to keep its accounting records. Considering its operating businesses, the Group does not think that it is exposed to any major direct foreign exchange risks, and it has not adopted any financial derivative instruments to hedge such risks. Part of the Group's cash deposits and bank borrowings are denominated in Hong Kong dollars, which makes it subject to potential conversion differences resulted from the fluctuation of foreign exchange rates on financial statements.

Employees and remuneration policies

As at 30 June 2020, the Group has 3,839 employees (the figure at 31 December 2019 is 3,589). The salary package of employees are determined by their working experiences, duties and performances. The management will conduct annual review on the salary plan while taking into account employees' general performance and market. The Group also makes contributions to employees' social security plans in China and to the mandatory provident fund scheme in the Hong Kong Special Administrative Region of the People's Republic of China.

In addition, eligible employees are also entitled to share awards under the share award scheme and to the share options under the share option scheme. During the period from January to June of 2020, the global economy is facing a severe challenge, and most of the companies have to take the pressure. In order to safeguard the benefits of all shareholders, the Group has not granted shares awards in accordance with any share award scheme. As at 30 June 2020, the Group has 50,231,000 outstanding share options under share option scheme, accounting for approximately 3.2% of the shares the Company issued on that date. For more information about the share option scheme, please refer to the 2020 interim report which the Company will publish in due course. The Group will review its remuneration policies and employees' benefits by referring to the market practices and individual employee's personal performance on a regular basis.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the reporting period.

EVENTS AFTER THE REPORTING PERIOD

As from the end of the reporting period of 30 June 2020 to the date of this announcement, there was no significant event that would have any material impact on the Group.

INTERIM DIVIDEND

At the meeting of the Board held on 25 August 2020, the Board resolved not to pay interim dividends to the shareholders of the Company (2019: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2020, 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.

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 have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the requirements of the Listing Rules and the Corporate Governance Code. As at the date of this announcement, the Audit Committee consists of three members, namely Mr. Wang Nengguang, Mr. Lau Kwok Fan and Mr. Chan Ying Lung, 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 unaudited interim results for the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and that of the Company (http://www.hexieauto.com). The interim report will be dispatched to the shareholders and will be available on those websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

By Order of the Board
China Harmony Auto Holding Limited
Feng Changge
Chairman and Executive Director

Hong Kong, 25 August 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. Lau Kwok Fan and Mr. Chan Ying Lung.