HARMONY AUTO

和諧汽車

China Harmony Auto Holding Limited

中國和諧汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03836)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2020

RESULTS HIGHLIGHTS:

- Our revenue for the year ended December 31, 2020 amounted to approximately RMB14,746.9 million, representing an increase of 16.8% from approximately RMB12,621.8 million recorded in the corresponding period in 2019.
- The Group recorded a sales volume of new vehicles of 36,573 units for the year ended December 31, 2020, representing an increase of 11.5% compared to the corresponding period in 2019.
- Our gross profit for the year ended December 31, 2020 amounted to approximately RMB1,298.8 million, representing an increase of 19.5% from approximately RMB1,087.1 million recorded in the corresponding period in 2019. The gross profit of new vehicle sales and after-sales business in 2020 was RMB448.5 million and RMB814.5 million, respectively, representing an increase of 38.8% and 10.0% compared with 2019.
- Net cash generated from operating activities for the year ended December 31, 2020 amounted to RMB832.4 million, representing an increase of 252.9% as compared to the corresponding period in 2019.
- The Group achieved net profit for the year ended December 31, 2020 of RMB422.1 million. The Group recorded an adjusted profit of RMB506.3 million in 2020 after deducting non-recurring items, representing a growth of 31.3% as compared to the corresponding period in 2019.
- Basic and diluted earnings per share for the year ended December 31, 2020 were RMB0.27 and RMB0.27, respectively.
- The Board proposed a final dividend of HK7.9 cents for each ordinary share for the year ended December 31, 2020.

ANNUAL RESULTS

The board of directors (the "**Board**") of China Harmony 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, 2020 (the "**Reporting Period**"). 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, 2020

	Notes	**2020** ***RMB'000***	2019 *RMB'000*
REVENUE	4(a)	**14,746,923**	12,621,821
Cost of sales and services		**(13,448,106)**	(11,534,741)
GROSS PROFIT		**1,298,817**	1,087,080
Other income and gains, net	4(b)	**339,523**	530,565
Selling and distribution expenses		**(689,611)**	(633,243)
Administrative expenses		**(198,706)**	(181,387)
PROFIT FROM OPERATIONS		**750,023**	803,015
Finance costs	5	**(134,050)**	(110,015)
Share of profits of joint ventures		**2,150**	14
Share of losses of associates		**(817)**	(20,121)
PROFIT BEFORE TAX		**617,306**	672,893
Income tax expense	7	**(195,162)**	(146,845)
PROFIT FOR THE YEAR	6	**422,144**	526,048

	Notes	**2020** **_RMB'000_**	2019 _RMB'000_
Other comprehensive (loss)/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		**(86,537)**	9,292
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(18,530)**	(5,166)
Other comprehensive (loss)/income for the year, net of tax		**(105,067)**	4,126
Total comprehensive income for the year		**317,077**	530,174
Profit for the year attributable to:			
Owners of the Company		**410,701**	513,307
Non-controlling interests		**11,443**	12,741
		422,144	526,048
Total comprehensive income for the year attributable to:			
Owners of the Company		**305,634**	517,433
Non-controlling interests		**11,443**	12,741
		317,077	530,174
Earnings per share attributable to owners of the Company	8		
Basic (RMB)		**0.27**	0.34
Diluted (RMB)		**0.27**	0.34

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2020

	Notes	**2020**	2019
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,914,140**	2,691,070
Right-of-use assets		**730,628**	525,106
Intangible assets		**137,581**	98,578
Goodwill		**141,791**	57,911
Prepayments and other assets		**776,818**	789,142
Finance lease receivables		**221,501**	130,538
Investments in joint ventures		**7,770**	5,620
Investments in associates		**6,527**	7,344
Investments at fair value through profit or loss		**1,273,077**	1,389,589
Equity investment at fair value through other comprehensive income		**31,800**	118,337
Deferred tax assets		**63,406**	61,244
Total non-current assets		**6,305,039**	5,874,479
CURRENT ASSETS			
Finance lease receivables		**156,796**	92,347
Inventories	9	**1,093,579**	1,261,867
Trade receivables	10	**155,364**	134,858
Prepayments, other receivables and other assets		**2,736,182**	2,496,613
Investments at fair value through profit or loss		**84,201**	88,187
Pledged and restricted bank deposits		**84,869**	68,379
Cash in transit		**22,031**	43,769
Cash and bank balances		**1,714,316**	1,362,063
Total current assets		**6,047,338**	5,548,083

	Notes	**2020** *RMB'000*	2019 *RMB'000*
CURRENT LIABILITIES			
Bank loans and other borrowings		**2,604,410**	2,493,699
Trade and bills payables	11	**264,444**	115,539
Other payables and accruals		**855,063**	675,447
Lease liabilities		**83,874**	30,408
Income tax payable		**284,888**	218,314
Total current liabilities		**4,092,679**	3,533,407
NET CURRENT ASSETS		**1,954,659**	2,014,676
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,259,698**	7,889,155
NON-CURRENT LIABILITIES			
Lease liabilities		**654,957**	510,009
Deferred tax liabilities		**57,254**	55,647
Total non-current liabilities		**712,211**	565,656
NET ASSETS		**7,547,487**	7,323,499
EQUITY			
Equity attributable to owners of the parent			
Share capital		**12,536**	12,519
Reserves		**7,475,504**	7,257,804
		7,488,040	7,270,323
Non-controlling interests		**59,447**	53,176
TOTAL EQUITY		**7,547,487**	7,323,499

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND GROUP INFORMATION

China Harmony Auto Holding Limited (formerly known as "China Harmony New Energy Auto Holding Limited") (the "**Company**") was incorporated on September 24, 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, 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**"). 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.

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 1 January 2020. 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 consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the consolidated financial statements of the Group.

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

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers		
— Revenue from the sale of automobiles and others	**12,893,047**	10,912,378
— Provision of after-sales services	**1,818,155**	1,685,770
Revenue from other sources		
— Finance leasing services	**35,721**	23,673
	14,746,923	12,621,821

Disaggregation of revenue from contracts with customers:

	2020	2019
	RMB'000	*RMB'000*
Type of goods or services		
Sale of automobiles and others	**12,893,047**	10,912,378
Provision of after-sales services	**1,818,155**	1,685,770
Total revenue from contracts with customers	**14,711,202**	12,598,148

	2020	2019
	RMB'000	*RMB'000*
Timing of revenue recognition		
Goods received by the customer at a point in time	**12,893,047**	10,912,378
Services rendered at a point in time	**1,818,155**	1,685,770
Total revenue from contracts with customers	**14,711,202**	12,598,148

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:

	2020	2019
	RMB'000	*RMB'000*
Sale of automobiles and others	**409,258**	314,331
Provision of after-sales services	**77,607**	46,983
	486,865	361,314

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

	2020	2019
	RMB'000	*RMB'000*
Commission income	**342,261**	299,559
Interest income from loans to equity investment at fair value through other comprehensive income	**27,631**	73,224
Advertisement support received from motor vehicle manufacturers	**29,117**	44,461
Gain on disposal of an associate	**—**	32,288
Interest income from loans and advances to a third party	**15,455**	25,953
Bank interest income	**18,667**	11,366
Gain on disposal of intangible assets	**—**	2,063
Government grants *(note)*	**5,915**	1,964
Interest income from an investment at fair value through profit or loss	**4,030**	3,603
Fair value change on investments at fair value through profit or loss	**(120,498)**	16,789
Rental income	**13,689**	8,215
Others	**3,256**	11,080
	339,523	530,565

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

	2020	2019
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**106,876**	90,972
Lease interests	**35,721**	34,814
	142,597	125,786
Less: Interest capitalised	**(8,547)**	(15,771)
	134,050	110,015

6. PROFIT FOR THE YEAR

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

	2020	2019
	RMB'000	*RMB'000*
Amortisation of intangible assets	**5,442**	4,400
Auditor's remuneration		
Audit services		
— Current year	**5,300**	3,300
— Under-provision in prior year	**650**	—
Non-audit services	**560**	200
Bank charges	**2,758**	5,127
Cost of sales and services:		
Cost of sales of automobiles *(note a)*	**12,444,500**	10,589,269
Cost of aftersales services *(note b)*	**1,003,606**	945,472
	13,448,106	11,534,741
Depreciation charge of property, plant and equipment	**183,083**	153,983
Depreciation charge of right of use assets	**85,967**	70,171
Fair value change on investments at fair value through profit or loss	**120,498**	(16,789)
Foreign exchange differences, net	**(383)**	(385)
Gain on disposal of an associate	**—**	(32,288)
Gain on disposal of intangible assets	**—**	(2,063)
Loss on disposals of property, plant and equipment	**10,782**	13,522
Staff costs including directors' emoluments		
— Wages and salaries	**283,109**	237,982
— Equity-settled share-based payments	**26,165**	85,635
— Other welfare	**43,493**	56,576
	352,767	380,193

Note:

(a) For the year ended 31 December 2020, no impairment provision was made for inventories.

(b) The employee benefit expenses of RMB80,161,000 (2019: RMB64,065,000) were included in the cost of after-sales services.

7. INCOME TAX EXPENSE

	2020	2019
	RMB'000	*RMB'000*
Current Mainland China corporate income tax		
Provision for the year	**206,238**	156,956
Deferred tax	**(11,076)**	(10,111)
	195,162	146,845

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 31 December 2020 and 2019. No provision for Hong Kong profits tax has been made for the year ended 31 December 2020 as the Group did not generate any assessable profit arising in Hong Kong during the year (2019: Nil).

According to the Corporate Income Tax Law of the People's Republic of China, the income tax rate for Mainland China subsidiaries is 25% (2019: 25%).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company 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 owners of the Company. 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:

	2020	2019
	RMB'000	*RMB'000*
Earnings:		
Profit for the year attributable to the owners of the Company used in the basic earnings per share calculation	**410,701**	513,307
Number of shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,536,876,241**	1,513,637,039
Effect of dilution weighted average number of ordinary shares:		
— Share options	**6,621,766**	—
	1,543,498,007	1,513,637,039

9. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Automobiles	**925,916**	1,133,165
Spare parts and accessories	**167,663**	128,702
	1,093,579	1,261,867

At 31 December 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB430,970,000 (2019: RMB1,014,390,000) were pledged as security for the Group's bank loans and other borrowings.

At 31 December 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB90,522,000 (2019: RMB2,802,000) were pledged as security for the Group's bills payable (note 11).

10. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**155,364**	134,858

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:

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**138,749**	116,228
3 months to within 1 year	**16,615**	18,630
	155,364	134,858

(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 number of days past due. The expected credit losses also incorporate forward looking information.

	Current	**Less than 3 months past due**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
At 31 December 2020			
Trade receivables			
Weighted average expected loss rate	0%	0%	
Receivable amount	138,749	16,615	155,364
Loss allowance	—	—	—
At 31 December 2019			
Trade receivables			
Weighted average expected loss rate	0%	0%	
Receivable amount	116,228	18,630	134,858
Loss allowance	—	—	—

11. TRADE AND BILLS PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**127,194**	106,867
Bills payable	**137,250**	8,672
	264,444	115,539

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**250,058**	106,620
3 to 6 months	**7,879**	3,561
6 to 12 months	**1,284**	3,014
Over 12 months	**5,223**	2,344
	264,444	115,539

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 RMB90,522,000 (2019: RMB2,802,000) as at 31 December 2020 (note 9).

12. DIVIDENDS

	2020	2019
	RMB'000	*RMB'000*
Proposed final — HK7.9 cents (2019: HK7.5 cents) per ordinary share	**105,309**	104,128

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 31 December 2020 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 consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

China's automobile industry underwent a tough and challenging year of 2020. The outbreak of COVID-19 pandemic in the first quarter brought the production and sales activities to a standstill, thus resulting in a slump of retail sales volume of passenger cars in the first half of the year. With the successful control over the contagion of the pandemic, China's economy was quickly returned to normal since the second quarter. In a bid to regain the steam of economic growth in the post-pandemic era, the central government doubled down on boosting automobile consumption with an array of supporting policies, such as license plates limit relaxation in some tier-1 cities and subsidies for the automobile replacement in the countryside, which helped unleash the pent-up demand for passenger cars, leading to a robust recovery in the second half. According to the data from China Passenger Cars Association ("**CPCA**"), while China's passenger cars market extended the downturn in 2020 with the retail sales of 21 million units for the full year, representing a year-on-year contraction of 6.8%-the third year in a row of decline since 2018, the luxury brands segment underlined a bright spot where retail sales volume in 2020 was 2.5 million units, or a 14.7% growth from 2019, presenting a strong resilience.

Given the backdrop of COVID-19 pandemic in 2020 that wreaked havoc on the global automobile industry, China, again, represented a significant importance to the majority of luxury brands' global sales performance. For instance, BMW and Lexus posted a 7.2% and 6% sales volume decline respectively in 2020 for their global markets, whereas China was one of the few regions that contributed volume growth to the brands. The Group believe that China's on-going consumption upgrade trend in favor of our brands portfolio will remain intact, although the country's economy is still facing great uncertainties caused by the tight Sino-US relations. At present, the penetration of luxury brands in China was merely around 12%, far less than the rate in some matured markets, which implies there is still plenty of headroom for the growth of luxury brands in China in the foreseeable future. In addition, the increasing contribution from replacement demand taking place in tier-1 and tier-2 cities in China will also be a tailwind to the luxury brands consumption going forward.

Since China has made a great commitment to achieving carbon neutrality in the long run, new energy vehicles ("**NEV**"), due to their low carbon emission, will play a vital role in helping China reach this long-term goal. Data from CPCA revealed that electric vehicles ("**EV**"), the major type of NEV, saw a robust comeback in 2020 at 10% growth from 2019 for the retail sales volume, much faster than the tepid growth of 0.8% in 2019. The acceleration of EV sales this time was mainly demand-led, rather than policy-driven, which is healthier and more sustainable in the longer run. At the end of 2020, EV uptake in China was only about 6% of the new cars registration for the year, and thus it will see a huge upside potential in the near future as the 14th Five-Year Plan from the central government has set the target of 20% of EV penetration by the end of 2025. We believe that with the emergence of sought-after EV models, plus the increasing availability of charging facilities, more and more potential car buyers will turn their eyes to EV, which will help bring a tipping point to China's EV consumption and will also create a new eco-system for dealership.

BUSINESS OVERVIEW

Continuing to unleash the potential of our core business by investing more in self-operated outlets and conducting M&A strategies in the due course

As of the end of 2020, the Group has a total number of 75 authorized dealership outlets distributing 13 luxury and ultra-luxury brands, with the geographic coverage of 37 cities in 13 provinces across the country. The Group's brands portfolio consists of 9 luxury brands, namely BMW, Lexus, Volvo, Audi, Mini, Jaguar, Land Rover, Lincoln, and Alfa Romeo, and 4 ultra-luxury brands, namely Bentley, Rolls Royce, Ferrari, and Maserati.

There are currently some authorized outlets from BMW, Lexus, and Ferrari brands in the Group's pipeline, most of which will be operated in tier-1 and tier-2 cities in China. The strategic layout of the Group's outlets in the central parts of China will continue to play a vital role to sustain our business growth in the future. Meanwhile, the Group has been recently extending the business footprint into the western and eastern parts of China in a bid to tap the great potential of new cars and replacement demand over there. We believe our enduring effort to consolidate and expand our outlets coverage will help further grow our brand awareness and market presence in China.

The principal business will continue to play as a key driver for the Group's development. Through proactively optimizing the outlets portfolio, improving the personnel assessment indicators, and adopting more digitalization to facilitate our inventory management and customer relationship management, the Group will be dedicated to enhancing efficiency and profitability of outlets, thus delivering a better return on our core business.

The consumption upgrade in China is flourishing and gathering steam in the post-pandemic era. This will fuel the boom of luxury cars segment, which will be a tailwind to our core business. We believe we are capable to deliver a decent performance on a sustainable basis by leveraging our experience in distributing luxury cars for years and carrying out M&A plans in due course.

New cars sales volume maintained robust growth momentum despite the automotive demand hit hard by the COVID-19 pandemic

For the year ended December 31, 2020, the Group achieved the total sales volume of 36,573, or a 11.5% year-on-year increase from 2019 amid the hardship caused by the COVID-19 pandemic. As the largest dealer of BMW in the central and western regions of China and one of the leading dealers in the country, the Group sold 27,774 units under BWM brand (including Mini brand) in 2020, representing a year-on-year increase of 8.1%. The Group also gathered steam in selling Lexus, with the sales volume soaring by 17.8% from 3,821 units in 2019 to 4,502 units in 2020. For the ultra-luxury brands, we also made a great accomplishment during the Reporting Period. For instance, the Group's sales volume of Bentley saw a huge jump at 213.2% from 2019, which implied a huge growth potential for ultra-luxury brands segment in China.

Preparing the ground for the transition of dealership toward the future of NEV

2020 can be viewed as a remarkable year for the NEV development in China. Passenger NEV showed a strong rebound in the post-pandemic automobile consumption with the rise in uptake, due to the favorable policy support. In addition, the localization of Tesla's Model 3 and Y, coupled with the competition from the newcomers, such as Nio, Xpeng and Lixiang, will fuel the vehicles electrification in the domestic market. We have a faith that the transition toward NEV will bring both opportunities and challenges to the business of dealership. As a first mover among traditional dealers to embrace the electrification, the Group has extended its business footprint into the field of NEV, which includes our strategic investment in Byton — a premium brand focusing on "Automation, Connectivity, Electrification, and Shared mobility" (ACES), and Dangdang Car Repair — an O2O platform that specializes in the sales and aftersales services provision for NEV brands, such as Nio, Xpeng, and Lixiang.

Business outlook and development strategy

First and foremost, the Group will continue to dig out the potential of our principal business — the dealership of luxury and ultraluxury brands. We see that there has been much headroom for the potential growth in this racing path as the automobile consumption in China has been remarkably reversing to higher tier cities in the recent years, where the luxury brands will be highly sought-after due to stronger economic growth and greater disposal income of local citizens. With the advantage that our brand portfolio has captured some fast-growing luxury and ultraluxury brands in China, such as BMW, Lexus, Volvo, Rolls Royce, and Bentley, we believe that we are capable to further drive the profitability by concentrating on the improvement of operating efficiency, i.e., cash flow and inventory management, and by carrying out M&A strategies in due course to consolidate and expand our market presence.

In addition, as the used cars market, the niche segment that has been underdeveloped for years in China, is facing the policy tailwind, the Group will continue to grow our used cars business to further optimize our revenue source.

Transition toward NEV has been put to the strategic height of the Group. We will continue to make efforts to explore the new business model for traditional dealership in the world of electrification. The Group will nurture the investment in Byton and Dangdang Car Repair and seek to unlock their value in due course.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB14,746.9 million for 2020, representing an increase of 16.8% as compared with RMB12,621.8 million for 2019. The growth of revenue in 2020 mainly due to (1) the increase in numbers of key brands stores and (2) the recovery of the market in the second half of the year.

Revenue from sales of new vehicles amounted to RMB12,893.0 million, representing an increase of 18.2% from 2019. Revenue from after-sales and accessories business amounted to RMB1,818.2 million, accounting for 12.3% of the total revenue, and representing an increase of 7.9% as compared to the year ended 31 December 2019.

Cost of sales and services

Cost of sales and services of the Group for 2020 amounted to RMB13,448.1 million, representing an increase of 16.6% from 2019. Among them, the cost of new vehicles sales in 2020 was RMB12,444.5 million, representing an increase of 17.5% from RMB10,589.3 million recorded in the corresponding period in 2019. The cost of after-sales services in 2020 was RMB1,003.6 million, representing an increase of 6.1% from RMB945.5 million recorded in the corresponding period in 2019. The reason for the increase in costs this year is mainly due to the increase in business volume for both new vehicles sales and aftersales service business.

Gross profit and gross profit margin

Gross profit of the Group was RMB1,298.8 million for 2020, representing an increase of 19.5% as compared with RMB1,087.1 million in 2019. Among them, due to the market recovery after COVID-19 pandemic impact this year, the gross profit of new vehicle sales in 2020 was RMB448.5 million, representing an increase of 38.8% compared to 2019. The gross profit of after-sales service in 2020 was RMB814.5 million, representing an increase of 10.0% compared to 2019.

Gross profit margin of the Group in 2020 was 8.8%, representing an increase of 0.2% from 8.6% recorded in the corresponding period in 2019. Among them, the gross profit margin of the sales of new vehicles in 2020 was 3.5%, representing an increase of 0.5% compared to 2019. The gross profit margin of after-sales service in 2020 was 44.8%, representing an increase of 0.9% compared to 2019.

Selling & Administrative expenses

In 2020, selling and administrative expenses of the Group amounted to RMB888.3 million, representing an increase of 9.0% from RMB814.6 million in 2019 which was mainly due to the growth of volume in both new vehicle sales and after sales business.

Other income and gains, net

Other income and gains, net of the Group amounted to RMB339.5 million in 2020. Compared to RMB530.6 million in 2019, the decrease in 2020 mainly resulted from the fair value change of Future Mobility Corporation Limited Cayman ("**FMC**").

Other income and gains mainly comprises the commission income (from insurance agency and vehicle financing agency service), gains on trading of second-hand vehicles, income from advertisement support from automobile manufacturers, interest income, 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 2020 was RMB134.1 million, representing an increase of 21.9% from RMB110.0 million for 2019. This was mainly due to the increase in average borrowing caused by the opening of several new stores by the Group in 2020 and the overall growth of business volume.

Profit for the year attributable to the owners of the Company

The Group's profit for the year attributable to owners of the Company for 2020 was RMB410.7 million. Among which, excluding the impact of non-recurring items, profit for the year attributable to owners of the Company for 2020 amounted to RMB494.9 million, representing a growth of 32.7% as compared to the corresponding period of 2019.

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 mainly financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at December 31, 2020, cash and bank balances of the Group totaled RMB1,714.3 million (2019: RMB 1,362.1 million).

In 2020, our net cash generated from operating activities was RMB799.5 million, net cash used in investing activities was RMB230.3 million, and net cash used in financing activities was RMB208.5 million.

Considering 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, 2020, the Group had net current assets of RMB1,954.7 million, decreased by 3.0% as compared to RMB2,014.7 million as at December 31, 2019, which was mainly due to the impairment of FMC.

Capital expenditure

In 2020, the Group's capital expenditure was RMB404.6 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 as well as the acquisition of subsidiaries.

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Inventories decreased by 13.3% from RMB1,261.9 million as at December 31, 2019 to RMB1,093.6 million as at December 31, 2020.

The Group's average inventory turnover days for 2020 were 32 days, decreased by 5 days as compared to 2019. The decrease in inventory and inventory turnover days was mainly due to the effective inventory management.

Bank loans and other borrowings

As at December 31, 2020, the Group had bank loans and other borrowings in the aggregate amount of RMB2,604.4 million, representing a year-on-year increase of 4.4% as compared to RMB2,493.7 million as at December 31, 2019.

	2020	2019
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year	**1,826,745**	1,486,503
Other borrowings repayable:		
Within one year	**777,665**	1,007,196
	2,604,410	2,493,699

As at December 31, 2020, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 38.9%, representing an increase of 3.0% as compared with that of December 31, 2019.

As at December 31, 2020, 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 which were subject to these mortgages or pledges as at December 31, 2020, mainly consisted of (i) inventories in the amount of RMB431.0 million; (ii) property, plant and equipment in the amount of RMB11.1 million, and (iii) land use rights in the amount of RMB5.1 million. In addition, certain of the Group's bank loans and other borrowings were mainly guaranteed by certain Directors of the Company, the Group's subsidiaries or legal representative of certain subsidiaries of the Company as at December 31, 2020.

Contingent liabilities

As at December 31, 2020, the Group 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 the 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 uses 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 has not used any derivative financial instruments to hedge its exposure to risks.

Employees and remuneration policies

As at December 31, 2020, the Group had a total of 4,206 employees (2019: 3,589). The increase in the number of employees is mainly due to the expansion of the Company's business.

Relevant staff cost for 2020 was approximately RMB352.8 million (including employee share incentive of RMB26.2 million), while the staff cost was approximately RMB380.2 million for 2019 (including employee share incentive of RMB85.6 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 at December 31, 2020, the Company had 44,691,000 share options outstanding under the share option scheme, which represented approximately 2.8% of the Company's share in issue as at that date.

For further details of the share option scheme, please refer to the 2020 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, 2020, the Company repurchased a total of 3,178,500 ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$10,861,776 (excluding transaction cost). The 3,178,500 repurchased shares were subsequently cancelled on December 9, 2020. Details of the shares repurchased during the Reporting Period are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share Highest	Repurchase price per share Lowest	Aggregate consideration (excluding transaction cost)
		(HK$)	*(HK$)*	*(HK$)*
November 2020	3,178,500	3.57	3.40	10,861,776
Total	3,178,500			10,861,776

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, 2020.

EVENTS AFTER THE REPORTING PERIOD

As of the end of the Reporting Period of 31 December, 2020 to the date of this announcement, there was no significant event that would have any material impact on the Group.

FINAL DIVIDEND

The Board proposed a final dividend of HK7.9 cents for each ordinary share for the year ended December 31, 2020. 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 11, 2021 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, 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 confirmed that, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2020.

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, 2020 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, 2020. 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. 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 annual results for the year ended December 31, 2020.

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 Auto Holding Limited
LIU Fenglei
CEO and Executive Director

Zhengzhou, the People's Republic of China
March 31, 2021

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.