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 2021

RESULT HIGHLIGHTS

For the six months ended 30 June 2021:

- The Group recorded the new vehicle sales volume at 22,447, representing an increase of 53.6% compared with the same period of the last year.
- The revenue from the main business of the Group stood at RMB9,373.9 million in the first half of 2021, representing an increase of 62.9% compared with the same period of the last year.
  - — The revenue of selling new vehicles increased by 64.3% compared with the same period of last year to RMB8,251.3 million of this year.
  - — The revenue from after-sales service and brand businesses recorded an increase of 52.8% to RMB1,096.8 million.
- Trade volume of used car for the six months ended 30 June 2021 increased by 79.3% to 3,678 units as compared to the same period of the last year.
- The profit for the period of the Group was RMB400.6 million, representing an increase of 65.4% compared with the same period of the last year.
- The basic earnings and diluted earnings per share was RMB0.254 and RMB0.253, respectively.

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") 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 2021 (the "**Reporting Period**").

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Six months ended 30 June	
		2021	2020
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
REVENUE	*4*	**9,373,909**	5,754,675
Cost of sales and services		**(8,514,740)**	(5,234,899)
GROSS PROFIT		**859,169**	519,776
Other income and gains, net	*5*	**243,680**	206,550
Selling and distribution expenses		**(426,794)**	(284,131)
Administrative expenses		**(111,112)**	(75,753)
PROFIT FROM OPERATIONS		**564,943**	366,442
Finance costs	*6*	**(61,207)**	(57,075)
Share of profits of joint ventures		**(5)**	9
Share of losses of associates		**554**	(1,736)
PROFIT BEFORE TAX		**504,285**	307,640
Income tax expense	*7*	**(103,699)**	(65,388)
PROFIT FOR THE PERIOD	*8*	**400,586**	242,252
Other comprehensive loss after tax:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(25,756)**	(23,739)

	Notes	Six months ended 30 June **2021** ***RMB'000*** **(Unaudited)**	 2020 *RMB'000* (Unaudited)
Other comprehensive loss for the period, net of tax		**(25,756)**	(23,739)
Total comprehensive income for the period		**374,830**	218,513
Profit for the period attributable to:			
Owners of the Company		**390,836**	234,786
Non-controlling interests		**9,750**	7,466
		400,586	242,252
Total comprehensive income for the period attributable to:			
Owners of the Company		**365,080**	211,047
Non-controlling interests		**9,750**	7,466
		374,830	218,513
Earnings per share attributable to owners of the Company	*10*		
Basic *(RMB)*		**0.254**	0.150
Diluted *(RMB)*		**0.253**	0.150

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Notes	**30 June 2021** *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,960,583**	2,914,140
Right-of-use assets		**783,434**	730,628
Intangible assets		**137,520**	137,581
Goodwill		**141,791**	141,791
Prepayments and other assets		**769,097**	776,818
Finance lease receivables		**256,706**	221,501
Investment in joint ventures		**7,765**	7,770
Investment in associates		**7,082**	6,527
Financial assets at fair value through profit or loss		**1,259,412**	1,273,077
Financial assets at fair value through other comprehensive income		**31,800**	31,800
Deferred Tax Assets		**75,612**	63,406
Total non-current assets		**6,430,802**	6,305,039
CURRENT ASSETS			
Finance lease receivables		**188,965**	156,796
Inventories		**1,117,768**	1,093,579
Trade receivables	*11*	**153,364**	155,364
Prepayments, other receivables and other assets		**2,794,632**	2,736,182
Investments at fair value through profit or loss		**83,160**	84,201
Pledged and restricted bank deposits		**89,377**	84,869
Cash in transit		**67,454**	22,031
Cash and bank balances		**1,926,574**	1,714,316
Total current assets		**6,421,294**	6,047,338
CURRENT LIABILITIES			
Bank loans and other borrowings		**2,596,327**	2,604,410
Trade and bills payables	*12*	**220,796**	264,444
Other payables and accruals		**970,867**	855,063
Lease liabilities		**95,484**	83,874
Income tax payable		**262,767**	284,888
Total current liabilities		**4,146,241**	4,092,679

	Notes	**30 June 2021** *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
NET CURRENT ASSETS		**2,275,053**	1,954,659
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,705,855**	8,259,698
NON-CURRENT LIABILITIES			
Lease liabilities		**745,477**	654,957
Deferred Tax Liabilities		**58,039**	57,254
Total non-current liabilities		**803,516**	712,211
NET ASSETS		**7,902,339**	7,547,487
EQUITY			
Equity attributable to owners of the parent			
Share capital	*13*	**12,540**	12,536
Reserves		**7,822,983**	7,475,504
		7,835,523	7,488,040
Non-controlling interests		**66,816**	59,447
TOTAL EQUITY		**7,902,339**	7,547,487

1. 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**").

These condensed consolidated financial statements should be read in conjunction with the 2020 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2020.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); 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 condensed consolidated financial statements and amounts reported for the current period 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 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 period, no major customer information is presented.

4. REVENUE

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
— Revenue from the sale of automobiles and others	**8,251,280**	5,021,405
— Provision of after-sales services	**1,096,767**	717,944
Revenue from other sources		
— Finance leasing services	**25,862**	15,326
	9,373,909	5,754,675

Disaggregation of revenue from contracts with customers:

Type of goods or services

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sale of automobiles and others	**8,251,280**	5,021,405
Provision of after-sales services	**1,096,767**	717,944
Total revenue from contracts with customers	**9,348,047**	5,739,349

Timing of revenue recognition

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Goods received by the customer at a point in time	**8,251,280**	5,021,405
Services rendered at a point in time	**1,096,767**	717,944
Total revenue from contracts with customers	**9,348,047**	5,739,349

5. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Commission income	**226,402**	163,555
Interest income from loans and advances to third parties	**18,602**	23,872
Bank interest income	**7,048**	8,116
Fair value change on investments at fair value through profit or loss	**(14,706)**	—
Others	**6,334**	11,007
	243,680	206,550

6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	**40,250**	40,430
Leases interests	**20,957**	16,645
	61,207	57,075

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Mainland China corporate income tax		
Provision for the year	**115,265**	82,019
Deferred tax credit	**(11,566)**	(16,631)
	103,699	65,388

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% (2020: 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 income tax rate for Mainland China subsidiaries is 25% (2020: 25%).

8. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Directors' remuneration	**3,654**	3,338
Fair value loss on investments at fair value through profit or loss	**14,706**	—
(Gain)/loss on disposal of property, plant and equipment	**(8,381)**	3,937
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**173,508**	110,978
Equity-settled share option expenses	**1,349**	3,393
Other welfare	**33,347**	15,733
Cost of sales and services:		
Cost of sales of automobiles	**7,906,659**	4,835,690
Cost of aftersales services	**608,081**	399,209
	8,514,740	5,234,899

9. DIVIDENDS

At the annual general meeting held on 11 June 2021, a final dividend of HK$0.079 (equivalent to approximately RMB0.066) in respect of the year ended 31 December 2020 per ordinary share was approved, for a total of approximately HK$124,577,000 (equivalent to approximately RMB104,077,000). The dividend was paid on 11 August 2021 (2020: a final dividend of HK$0.075 (equivalent to approximately RMB0.069) in respect of the year ended 31 December 2019 per ordinary share with aggregate amount of approximately RMB108,048,000).

The Board recommends not to declare any interim dividend for the six months ended 30 June 2021.

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**390,836**	234,786
Number of shares:	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,539,416**	1,574,663
Effect of dilution *weighted average number of ordinary shares:*		
— Share options	**4,272**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,543,688**	1,574,663

11. TRADE RECEIVABLES

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

	At 30 June 2021	At 31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**136,486**	138,749
3 months to within 1 year	**16,878**	16,615
	153,364	155,364

12. TRADE AND BILLS PAYABLES

The aging analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	At 30 June 2021 *RMB'000* **(Unaudited)**	At 31 December 2020 *RMB'000* (Audited)
Within 3 months	**212,629**	250,058
3 to 6 months	**1,167**	7,879
6 to 12 months	**2,452**	1,284
Over 12 months	**4,548**	5,223
	220,796	264,444

13. SHARE CAPITAL

	Number of issued and fully paid shares	**Amount** *RMB'000*
At 31 December 2020 and at 1 January 2021	1,576,424,677	12,536
Exercise of share options	500,000	4
At 30 June 2021	1,576,924,677	12,540

All shares issued in prior years rank pari passu with the then existing shares in issue in all respects.

14. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

Transactions with a related party

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Repayment from Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd. (鄭州永達和諧汽車銷售服務有限公司)	**1,624**	—

15. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2021 and 31 December 2020.

16. CAPITAL COMMITMENTS

	At 30 June 2021	At 31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**71,628**	89,461

17. EVENTS AFTER THE REPORTING PERIOD

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

18. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the Board on 16 August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

According to China Passenger Cars Association (CPCA), passenger cars sales came with 9,906,780 units sold in the retail market during the first half of 2021, representing a 28.4% increase from the same period last year where COVID-19 was taking a heavy toll on automobile consumption.

However, the sales momentum was substantially waning after the strong start in the first quarter this year. One of the key contributors is the chip shortage that was taking hold in the entire automobile manufacturing industry during the second quarter. Many large OEMs had to idle the plants or cut production, which in turn hurt the vehicles supply to dealers. It is highly uncertain when the chip crunch can be solved and how great the adverse impact will ripple through the automobile supply chain. From the dealership perspective, we did see some margin expansion in the industry during the first half because of this imbalance between auto demand and supply that might lead to more benign rebate and discount policies and healthier inventory level. As per data from CPCA, the average inventory level in the channel of dealership remained at around 1.5 months throughout the first half, deemed as a healthy inventory level.

Once again, luxury cars segment outgrew the overall industry in the first half. CPCA unveiled that luxury cars sales increased by 39.7% year on year to 1,471,689 units during the first six months of 2021. Yet, the growth engine of luxury cars slowed down in the second quarter mainly as a result of tight chip supply. With massive replacement demand for cars taking place in many higher tier cities in China, luxury brands will continue to be welcomed by consumers due to the consumption upgrade for the second car of the family. Another bright spot of the automobile sales year to date is arguably new energy vehicles. In the first half of 2021, as per sales data from CPCA, passenger electric vehicles (EV) posted a retail sales volume of 1,007,129 units, representing a surge of 220.9% year on year. This was primarily spurred by the continuation of the favorable policies toward EV that will be aligned with the central government's ambition to achieve carbon neutrality, and the growing popularity of some EV-focused brands, such as Tesla, Nio, Xpeng and BYD. While the EV consumption mainly concentrates in the cities with license plates limit, the adoption rate in cities without this limit also saw a take-off, which means that EV uptake in China is approaching to a more diversified spectrum.

BUSINESS OVERVIEW

The Company followed the strong growth trajectory of the industry in the first half to see a new car sales performance of 22,447 units distributed, or 53.6% increase from the same period last year. Our growth engine is still mainly fueled by BWM brand that contributed to about 76.3% of the Company's aggregate sales volume. The Company sold 17,116 units of BMW (incl. Mini), a 51.2% higher than the sales number in the same period last year, or even 42.6% larger than the sales volume in the first half of 2019. The sales momentum of BMW brand achieved by the Company also outpaced the BMW brand's sales growth in China, which was a 41.9% year-on-year rise. BMW brand recorded 467,000 units sold in the first half topping the No. 1 sales volume made in China among tier-one luxury brands, primarily driven by the highly welcomed models of 3 series, 5 series and X3. Other luxury brands in our brands portfolio, e.g., Lexus, Volvo, and Lincoln, also benefited from the low-base effect during the same period last year, as well as robust demand for luxury cars in China to see a quick ramp-up on sales volume growth. Sales volume made by Lexus, Volvo and Lincoln was 2,382, 1,107 and 934 units, or 28.8%, 46.6% and 243.4% year-on-year surge respectively. For ultra-luxury brands, Rolls Royce, Bentley, and Ferrari continued with their strong demand, growing at a fast pace of 78.3%, 353.3%, and 1,050% year on year respectively. The Company managed to continuously bring down the inventory level from 32 days last year to 23.7 days in the first half of 2021, which is in large parts thanks to the relatively tight supply from OEMs side and strong demand from consumer side. As of June 30, 2021, the Company had a total number of 79 authorized dealership outlets distributing 14 luxury and ultra-luxury brands, with the geographic coverage of 39 cities in 15 provinces across the country. The Company added four more authorized outlets in the first half, with 2 outlets for Ferrari, 1 outlet for Lamborghini and 1 outlet for Lexus.

In the fields of used cars and EV — presenting the next growth engines for the China car market and the Company in the future, the Company has been stepping up efforts to seize these new opportunities. We have planted seeds in the used cars segment by focusing on the current trade-in services provided to our clients and hope that we can bear fruit in this niche market soon. For the EV sales, the Company has made strategic investment in Dangdang Repair years ago which emphasizes the EV sales and aftersales services. At present, Dangdang Repair has gained authorization from Li Auto, Nio and Xpeng to offer maintenance for their car owners and sell some tier-2 EV brands in the form of "agency model".

The Company is still looking for solutions to revitalize the strategic investment in Byton. In the early 2021, Foxconn committed an amount of USD200 million to help Byton reach the Start of Production (SOP), which was deemed as an important step for Byton. Although Byton went through a bumpy road in the first half, the Company still hopes that Byton is on the right track to unleash its true value with the help from local government and Foxconn.

Future Outlook and Development Strategies

Looking into the second half of this year, the industry is believed to have the coexistence of opportunities and challenges. Traditionally, second half of a year will be the hot season for car purchase while the high-base effect in the second half last year might weigh on the year-on-year sales volume growth number in the second half of this year. For the chip crunch, the market is currently believing that the situation will be improved marginally from the second quarter this year, meaning that the supply bottleneck could be eased to some extent. On the demand front, the pent-up automobile consumption will remain solid, particularly in the categories of luxury brands and EV, which will be deemed to be the key drivers for the sales volume growth in the rest of this year.

In the second half, we believe that the Company will be able to deliver decent results as it is the traditionally peak season, coupled with the persistently strong demand on luxury cars. Despite the chip shortage being one of the largest uncertainties in the industry that will substantially impact the current dynamics of demand and supply, the Company is capable to go through the up-an-down during the growth cycle by having a team of veterans full of vision and experience. The recent resurgence of COVID cases in China due to the delta variant has made some travel restrictions in force, which might take some negative effect on the consumption sentiment. It could be another risk for our business operation in the second half.

FINANCIAL OVERVIEW

Revenue

The Group recorded a revenue of RMB9,373.9 million in the first half of 2021, representing an increase of 62.9% compared with that of RMB5,754.7 million for the same period of last year. Among which, the sales revenue of new vehicles recorded an increase from RMB5,021.4 million to RMB8,251.3 million, accounting for 88.0% of the total revenue of the first half of 2021. While the after-sales services and brand business recorded a revenue of RMB1,096.8 million, representing an increase of 52.8% compared with that for the same period in 2020 and accounting for 11.7% of the total revenue of the first half of 2021.

As for luxury car brands, the sales revenue of BMW (including MINI) and Lexus respectively recorded an increase of 56.9% and 25.0%, jointly accounting for 86.9% of the Group's total revenue from new cars. In respect of ultra-luxury brands, Bentley and Rolls-Royce respectively registered an increase of 286.8% and 78.9% in terms of new cars sales revenue.

Cost of sales and services

The cost of sales and services of the Group saw an increase from RMB5,234.9 million of the first half of 2020 to RMB8,514.7 million, or 62.7%, of the same period of 2021. The cost of new car sales and after-sale services were respectively RMB7,906.6 million and RMB608.1 million, representing an increase of 63.5% and 52.3%.

Gross profit and gross profit margin

The gross profit of the Group increased by 65.3% from RMB519.8 million in the first half of 2020 to RMB859.2 million in the same period of 2021. The gross profit of selling new vehicles grew by 85.6% from RMB185.7 million in the first half of 2020 to RMB344.6 million in the same period of 2021. The gross profit of after-sale services and brand businesses grew by 53.3% from RMB318.7 million in the first half of 2020 to RMB488.7 million in the same period of 2021.

The Group's gross profit margin in the first half of 2021 stood at 9.2%, representing a slight increase of 0.2 percentage points compared with 9.0% in 2020, during which, the gross profit of selling new vehicles in the first half of 2021 was 4.2%, representing an increase of 0.5 percentage points compared with that of 2020. The gross profit of after-sale services in the first half of 2021 was 44.6%, representing an increase of 0.2 percentage points compared with that of 2020.

Selling and distribution expense

The Group's selling and distribution expense in the first half of 2021 was RMB426.8 million, which increased by 50.2% due to the growth of sales.

Other income and gains, net

In the first half of 2021, other net income and gains of the Group was RMB243.7 million, which registered an increase of 18.0% compared with that of the same period of last year. 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. The increase in the first half of 2021 was mainly due to the growth of new car sales.

Finance costs

The Group's finance costs in the first half of 2021 is RMB61.2 million, representing an increase by 7.2% compared to that of the same period of 2020, RMB57.1 million. The increase is attributed to the increase of the average balance of borrowings during 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 due to the increase in lease liability which led to a higher amortized interest expense.

Operation profit

To conclude, the operation profit of the Group in the first half of 2021 is RMB564.9 million, while the figure of 2020 stood at RMB366.4 million, representing an increase of 54.2%.

Profit attributable to the owners of the parent

In the first half of 2021, the profit attributable to the owners of the parent is RMB390.8 million, representing a sharp increase of 66.5% compared with that of the same period of 2020.

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 2021, the total cash and deposits of the Group is RMB1,926.6 million. In the first half of 2021, the net cash generated from operation activities of the Group is RMB462.5 million; the net cash used for investment activities is RMB155.3 million; the net cash used for financing activities is RMB120.8 million.

Net current assets

As at 30 June 2021, the net current assets of the Group is RMB2,275.1 million, representing an increase of 16.4% from RMB1,954.7 million as at 31 December 2020.

Capital expenditure

The Group's capital expenditure comprises of its expenses on plant, property, equipment and the assets with use rights. In the first half of 2021, the Group's capital expenditure (mainly used as the expenses and prepayments to purchase the property, plant and equipment for setting up new outlets) stood at RMB170.1 million (the same period of 2020: RMB166.3 million). The reason of the increase is that the Group have opened 4 new 4S stores 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 increased slightly by RMB24.2 million from RMB1,093.6 million as at 31 December 2020 to RMB1,117.8 million as at 30 June 2021. The Group recorded a slightly increase of the inventories while the sales volume increased sharply, and the Group's average turnover days for inventories in the first half is 23.7 days, while the figure in the first half of 2020 is 39.9 days. The Group's turnover days decreased by 16.2 days, on one hand, the drop was due to the rebound of domestic consumption after the epidemic and the support of policies, on the other hand, the 4S stores of the Group continuously strengthened the management on their orders in relation to new passenger cars and after-service products, and the headquarters 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.

Bank loans and other borrowings

As at 30 June 2021, the total bank loans and other borrowings of the Group is RMB2,596.3 million, representing a decrease of 0.3% compared to the figure on 31 December 2020, RMB2,604.4 million.

	At 30 June 2021 *RMB'000*	At 31 December 2020 *RMB'000*
Bank loans		
Repayable on demand or within one year	**1,873,151**	1,826,745
Other borrowings:		
Repayable on demand or within one year	**723,176**	777,665
Total	**2,596,327**	2,604,410

As at 30 June 2021, the gearing ratio of the Group (the result of total liabilities divided by total assets) is 38.5%, representing a decrease of 0.4 percentage point than that at 31 December 2020, 38.9%.

Contingent liabilities

As at 30 June 2021, the Company had no material contingent liabilities or guarantees (31 December 2020: Nil).

Interest rate risk and foreign exchange risk

The Group is exposed to the risks arising from the fluctuation of the loan rates. The Group may incur additional borrowing costs due to the rise of the loan rates. 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 2021, the Group had 4,398 employees (the figure at 31 December 2020 is 4,206). The salary package of employees is 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 plan and to the share options under the share option scheme. During the period from January to June 2021, to safeguard the benefits of all shareholders, the Group has not granted shares awards in accordance with any share award plan. As at 30 June 2021, the Group has 43,891,000 outstanding share options under share option scheme, accounting for approximately 2.8% of the shares of the Company issued on that date. For more information about the share option scheme, please refer to the 2021 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 performance.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, the Company repurchased a total of 6,287,000 ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$20,931,000 (excluding transaction cost). Details of the shares repurchased during the Reporting Period are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share		Aggregate consideration (excluding transaction cost)
		Highest	Lowest	
		(HK$)	*(HK$)*	*(HK$'000)*
June 2021	6,287,000	3.40	3.24	20,931

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 during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

As from the end of the Reporting Period 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 16 August 2021, the Board resolved not to pay interim dividends to the shareholders of the Company (2020: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2021, 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 2021.

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 2021.

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, 16 August 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.