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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, 2021**

RESULTS HIGHLIGHTS:

- Our revenue for year ended December 31, 2021, amounted to approximately RMB17,981.1 million, representing an increase of 21.9% from approximately RMB14,746.9 million recorded in the corresponding period in 2020.
- The Group recorded a sales volume of new vehicles of 40,791 units for the year ended December 31, 2021, representing an increase of 11.5% compared to the corresponding period in 2020.
- Our gross profit for year ended December 31, 2021, amounted to approximately RMB1,751.3 million, representing an increase of 34.8% compared to the corresponding period in 2020. The gross profit of vehicle sales and after-sales business in 2021 is RMB664.3 million and 1,041.9 million, respectively, representing an increase of 48.1% and 27.9% compared with 2020.
- The Group achieved profit for the year ended December 31, 2021 of RMB691.3 million, representing a growth of 63.8% as compared to the corresponding period in 2020. Among which, excluding the impact of non-recurring gains and losses, our adjusted profit amounted to RMB757.4 million, representing a growth of 49.6% as compared to the corresponding period in 2020.
- Basic and diluted earnings per share for the year ended December 31, 2021 were RMB0.44 and RMB0.44, respectively.
- The Board proposed a final dividend of HKD0.21 for each ordinary share for the year ended December 31, 2021, accounting for approximately 40% of the profit for the year attributable to the parent company, an increase of 165.8% compared to the final dividend of the last year.

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, 2021 (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, 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
REVENUE	4	17,981,051	14,746,923
Cost of sales and services		<u>(16,229,787)</u>	<u>(13,448,106)</u>
GROSS PROFIT		1,751,264	1,298,817
Other income and gains, net	5	442,989	339,523
Selling and distribution expenses		(886,613)	(689,611)
Administrative expenses		<u>(250,071)</u>	<u>(198,706)</u>
PROFIT FROM OPERATIONS		1,057,569	750,023
Finance costs	6	(130,853)	(134,050)
Share of profits of joint ventures		3	2,150
Share of losses of associates		<u>246</u>	<u>(817)</u>
PROFIT BEFORE TAX		926,965	617,306
Income tax expense	7	<u>(235,694)</u>	<u>(195,162)</u>
PROFIT FOR THE YEAR	8	<u><u>691,271</u></u>	<u><u>422,144</u></u>

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other comprehensive loss after tax:			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value changes of an equity investment at fair value through other comprehensive income		(23,196)	(86,537)
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>(30,122)</u>	<u>(18,530)</u>
Other comprehensive loss for the year, net of tax		<u>(53,318)</u>	<u>(105,067)</u>
Total comprehensive income for the year		<u>637,953</u>	<u>317,077</u>
Profit for the year attributable to:			
Owners of the Company		673,155	410,701
Non-controlling interests		<u>18,116</u>	<u>11,443</u>
		<u>691,271</u>	<u>422,144</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		619,837	305,634
Non-controlling interests		<u>18,116</u>	<u>11,443</u>
		<u>637,953</u>	<u>317,077</u>
Earnings per share attributable to owners of the Company			
Basic (RMB)	9	<u>0.44</u>	<u>0.27</u>
Diluted (RMB)		<u>0.44</u>	<u>0.27</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2021

	<i>Notes</i>	2021	2020
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,054,559	2,914,140
Right-of-use assets		823,118	730,628
Intangible assets		149,665	137,581
Goodwill		141,791	141,791
Prepayments and other assets		421,189	776,818
Finance lease receivables		246,026	221,501
Investments in joint ventures		7,773	7,770
Investments in associates		6,774	6,527
Investments at fair value through profit or loss		1,217,011	1,273,077
Equity investment at fair value through other comprehensive income		8,604	31,800
Deferred tax assets		75,514	63,406
		<hr/>	<hr/>
Total non-current assets		6,152,024	6,305,039
CURRENT ASSETS			
Finance lease receivables		232,465	156,796
Inventories	10	1,129,635	1,093,579
Trade receivables	11	148,149	155,364
Prepayments, other receivables and other assets		3,760,416	2,736,182
Investments at fair value through profit or loss		81,504	84,201
Pledged and restricted bank deposits		87,752	84,869
Cash in transit		27,454	22,031
Cash and bank balances		1,629,199	1,714,316
		<hr/>	<hr/>
Total current assets		7,096,574	6,047,338

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
CURRENT LIABILITIES			
Bank loans and other borrowings		2,629,978	2,604,410
Trade and bills payables	12	217,265	264,444
Other payables and accruals		1,175,087	855,063
Lease liabilities		109,357	83,874
Income tax payable		223,632	284,888
		<hr/>	<hr/>
Total current liabilities		4,355,319	4,092,679
		<hr/>	<hr/>
NET CURRENT ASSETS		2,741,255	1,954,659
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,893,279	8,259,698
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liabilities		792,058	654,957
Deferred tax liabilities		58,659	57,254
		<hr/>	<hr/>
Total non-current liabilities		850,717	712,211
		<hr/>	<hr/>
NET ASSETS		8,042,562	7,547,487
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		12,480	12,536
Reserves		7,954,900	7,475,504
		<hr/>	<hr/>
		7,967,380	7,488,040
Non-controlling interests		75,182	59,447
		<hr/>	<hr/>
TOTAL EQUITY		8,042,562	7,547,487
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND GROUP INFORMATION

China Harmony 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 2021. 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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers		
— Revenue from the sale of automobiles and others	15,609,705	12,893,047
— Provision of after-sales services	2,326,282	1,818,155
Revenue from other sources		
— Finance leasing services	45,064	35,721
	<u>17,981,051</u>	<u>14,746,923</u>

Disaggregation of revenue from contracts with customers:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Type of goods or services		
Sale of automobiles and others	15,609,705	12,893,047
Provision of after-sales services	2,326,282	1,818,155
Total revenue from contracts with customers	<u>17,935,987</u>	<u>14,711,202</u>

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Timing of revenue recognition		
Goods received by the customer at a point in time	15,609,705	12,893,047
Services rendered at a point in time	2,326,282	1,818,155
Total revenue from contracts with customers	<u>17,935,987</u>	<u>14,711,202</u>

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:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of automobiles and others	421,385	314,331
Provision of after-sales services	65,480	46,983
	<u>486,865</u>	<u>361,314</u>

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.

5. OTHER INCOME AND GAINS, NET

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Commission income	420,628	342,261
Interest income from loans to equity investment at fair value through other comprehensive income	30,094	27,631
Advertisement support received from motor vehicle manufacturers	30,342	29,117
Interest income from loans to third parties	18,459	18,305
Bank interest income	14,472	15,817
Government grants (<i>note</i>)	7,383	5,915
Interest income from an investment at fair value through profit or loss	3,320	4,030
Rental income	14,790	13,689
Fair value change on investments at fair value through profit or loss	(58,763)	(120,498)
Impairment on intangible assets	(1,245)	—
Impairment on property, plant and equipment	(39,679)	—
Others	3,188	3,256
	<u>442,989</u>	<u>339,523</u>

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.

6. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest on bank loans and other borrowings	90,996	106,876
Leases interests	48,785	35,721
	<u>139,781</u>	<u>142,597</u>
Less: Interest capitalised	(8,928)	(8,547)
	<u>130,853</u>	<u>134,050</u>

7. INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current Mainland China corporate income tax		
Provision for the year	246,397	206,238
Deferred tax	<u>(10,703)</u>	<u>(11,076)</u>
	<u>235,694</u>	<u>195,162</u>

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 2021 and 2020. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2021 as the Group did not generate any assessment profit arising in Hong Kong during the year (2020: 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% (2020: 25%).

Reconciliation between tax expense and accounting profit at the applicable tax rate:

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2021	2020
	RMB'000	RMB'000
Profit before tax	<u>926,965</u>	<u>617,306</u>
Tax at the weighted average tax rate	192,479	154,326
Profits attributable to joint ventures and associates	(62)	(333)
Income not subject to tax	(16,135)	(11,854)
Tax effect of non-deductible expenses	37,813	34,925
Tax losses and temporary difference not recognised	22,270	18,438
Tax losses utilised from previous periods	<u>(671)</u>	<u>(340)</u>
Total income tax expenses	<u>235,694</u>	<u>195,162</u>

8. PROFIT FOR THE YEAR

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

	2021	2020
	RMB'000	RMB'000
Amortisation of intangible assets	5,818	5,442
Auditor's remuneration		
Audit services		
— Current year	4,050	5,300
— Under-provision in prior year	—	650
Non-audit services	1,110	560
Bank charges	3,026	2,758
Cost of sales and services:		
Cost of sales of automobiles (<i>note a</i>)	14,945,370	12,444,500
Cost of aftersales services (<i>note b</i>)	<u>1,284,417</u>	<u>1,003,606</u>
	<u>16,229,787</u>	<u>13,448,106</u>

	2021	2020
	RMB'000	RMB'000
Depreciation charge of property, plant and equipment	193,928	183,083
Depreciation charge of right of use assets	102,501	85,967
Fair value loss on investments at fair value through profit or loss	58,763	120,498
Foreign exchange differences, net	(189)	(383)
Loss on disposals of property, plant and equipment	18,335	10,782
Staff costs including directors' emoluments		
— Wages and salaries	386,797	283,109
— Equity-settled share-based payments	1,349	26,165
— Other welfare	75,915	43,493
	464,061	352,767

Note:

- (a) For the year ended 31 December 2021, no impairment provision was made for inventories.
- (b) The employee benefit expenses of RMB120,497,000 (2020: RMB80,161,000) were included in the cost of after-sales services.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to ordinary equity holders of the parent is based on the profit for the year attributable to the 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 the 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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Earnings:		
Profit for the year attributable to owners of the Company used in the basic earnings per share calculation	<u>673,155</u>	<u>410,701</u>
Number of shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,535,245,440	1,536,876,241
Effect of dilution weighted average number of ordinary shares: — Share options	<u>5,500,327</u>	<u>6,621,766</u>
	<u>1,540,745,767</u>	<u>1,543,498,007</u>

10. INVENTORIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Automobiles	948,003	925,916
Spare parts and accessories	<u>181,632</u>	<u>167,663</u>
	<u>1,129,635</u>	<u>1,093,579</u>

At 31 December 2021, certain of the Group's inventories with an aggregate carrying amount of approximately RMB402,973,000 (2020: RMB430,970,000) were pledged as security for the Group's bank loans and other borrowings.

At 31 December 2021, certain of the Group's inventories with an aggregate carrying amount of approximately RMB90,695,000 (2020: RMB90,522,000) were pledged as security for the Group's bills payable (note 12).

11. TRADE RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	<u>148,149</u>	<u>155,364</u>

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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	128,297	138,749
3 months to within 1 year	<u>19,852</u>	<u>16,615</u>
	<u>148,149</u>	<u>155,364</u>

(b) Impairment of trade receivables

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

	Current <i>RMB'000</i>	Less than 3 months past due <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2021			
Trade receivables			
Weighted average expected loss rate	0%	0%	
Receivable amount	128,297	19,852	148,149
Loss allowance	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2020			
Trade receivables			
Weighted average expected loss rate	0%	0%	
Receivable amount	138,749	16,615	155,364
Loss allowance	<u>—</u>	<u>—</u>	<u>—</u>

12. TRADE AND BILLS PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	121,125	127,194
Bills payable	96,140	137,250
	<u>217,265</u>	<u>264,444</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	212,083	250,058
3 to 6 months	2,762	7,879
6 to 12 months	636	1,284
Over 12 months	1,784	5,223
	<u>217,265</u>	<u>264,444</u>

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 RMB90,695,000 (2020: RMB90,522,000) as at 31 December 2021.

13. DIVIDENDS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Proposed final — HKD0.21 (2020: HK7.9 cents) per ordinary share	<u>268,226</u>	<u>105,309</u>

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 2021 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 passenger cars sales saw a roller-coaster year in 2021. According to sales data from the China Passenger Cars Association (**CPCA**), the entire retail market registered 20,145,868 units sold in 2021, increasing by 4.4% on a year-over-year basis. In the first half of the year, retail sales continued to thrive with 9,944,973 units sold or 29% year-over-year gain, while the momentum was losing steam in the second half, declining by 12% from the same period a year ago, largely due to the wait-and-see mood spreading among consumers under the expectation of rising sales price caused by the semiconductor shortage that had limited cars supply. Luxury-brand segment was, again, one of the bright spots in 2021 which showed a 4.9% sales gain from a year ago, outpacing the growth of the overall car sales in China. Of the luxury brands, BMW, with its highly competitive product matrix, remained the sales crown in domestic market for the second year, growing at 8.9% in 2021, which is in stark contrast to Benz and Audi that both saw a sales decline in China. Lexus, a very sought-after brand in China, posted a relatively disappointing sales number in 2021 with 1.1% sales growth, relative to 11% in 2020. The chip crunch — sweeping the global automotive supply chain last year — posed a seriously adverse impact on the production of Lexus which caused a repercussion on its supply to China market.

However, the limited supply due to the chip shortage created a better environment for dealership. China Automobile Dealers Association revealed that the overall inventory level of dealership remained at around 1.45 months throughout the whole year of 2021, which was significantly lower than the 3-year average level of 1.62 months from 2017–2019. This low level of dealers' inventory led to a better pricing dynamic in the market where discount to models was limited. Therefore, the lower discount dealers offered to customers, the higher new cars sales gross profit margin dealers can see. Undoubtedly, 2021 was a year where auto dealers of luxury brands saw the highest product margins never seen in the past five years.

A word — “divergence” could be used to describe the growth of 2021 between fuel-engine and electric cars. In contrast to the sale of inner-combustion-engine (**ICE**) passenger cars that shrunk by 4% in 2021, electric vehicles (**EV**) saw a stunning 2021 in China with a broad-based volume growth at 169% year over year, which was the primary driver to the entire automobile sales growth. Tier-one players, such as Nio, Xpeng and Lixiang, had reached the milestone of selling over 10k units per month for a few consecutive months since late third quarter. Tesla had turn Shanghai giga factory to be one of its key growth engines to the global sales, seeing a dramatic sales expansion in China led by Model 3 and Y in the first full-year sales of 2021. Thanks to the encouragement to the consumption of electric cars under the backdrop of reaching carbon peak and neutrality in the long run, EV penetration took off from merely 5% in 2019 to 17% by the end of 2021, which will continue to soar in the near future.

Industry Outlook

Envisioning the future of passenger cars sales in China, we believe that the growth will be able to continue moderately with one of the key drivers being lower passenger cars ownership in China compared with some developed markets. Luxury brands will keep delivering a solid momentum, which is a major beneficiary from the on-going consumption upgrade trend. EV will play an increasingly important role in boosting cars sales as the adoption of EV and infrastructure that facilitate EV consumption are building up. As such, auto dealers need to be bold in embracing the new dynamics and think of new business models when EV are taking more and more shares from traditional passenger cars. More specifically to the outlook of the industry in 2022, we believe challenges and opportunities will co-exist. Chip crunch is viewed as one of the biggest swinging factors that will cast uncertainty onto the whole industry.

BUSINESS OVERVIEW

The Company was delighted to present a strong operational and financial performance in 2021. Benefiting from the low-base effect in 2020 and competitive model line-ups of BMW — the primary driver to our sales volume, the Company delivered 40,791 units in 2021, a 11.5% growth from a year ago. Impacted by the chip shortage that took hold since late third quarter, our sales dropped by 16.5% year over year from 21,960 units in 2H2020 to 18,344 units in 2H2021, compared with the 53.6% year-over-year expansion in the first half.

Among brands the Company are selling, BMW (including Mini) saw a resilient volume expansion at 11.4% year over year given the severe disruption onto the cars supply brought by the semiconductor shortage. The burgeoning demand for super luxury brands in China has boosted the Company's sales performance of Ferrari, Rolls Royce, Bentley and Maserati, which underwent a 94.3%, 36.7%, 126.9% and 35.4% year-on-year volume increase in 2021 respectively. During the year, the Company added 5 new stores to our distribution network, of which 2 stores are Ferrari, 2 stores are Lexus and 1 store is Lamborghini. In a bid to optimize the existing sales network, the Company closed 4 stores with low operation efficiency in this year to improve the sales efficiency and profitability.

When it comes to the inventory, the Company was benefiting from the continuously low stockpile due to the chip shortage that limited vehicle supply. Our inventory level was 25 days for the whole year, whereas the inventory days was 24 days in the first half, meaning that some restocking happened in the second half. Low stockpile, to some extents, is good for our cash management and the gross profit margin as the Company do not need to offer deep discount to clear backlogs which adversely hurt new cars sales margin.

The Company has begun bearing fruit in the areas of used cars and EV. The transaction volume of used cars taking place in our sales network enlarged to 7,388 units in 2021, improved by 28.9% when compared to 2020. This achievement was helped by our dedication to trade-in services — a strategy that we believe is economically and financially optimal under the cost-and-benefit trade-off. For the EV space, Dangdang New Energy, a strategic investment made by the Company in years ago, is a comprehensive EV service provider spanning EV sales and aftersales services. At present, Dangdang New Energy has gained authorization to offer sales and aftersales services for car owners of some major EV brands, such as Li Auto, Nio, Xpeng, and GAC Aion.

Business Outlook

Looking ahead, the Company will continue to dig out the potential of our principal business — the dealership of luxury and ultraluxury brands. We see that there is much headroom for the potential growth in this racing path as the automobile consumption in China has been remarkably reversing to Tier 2 and Tier 3 cities in the recent years, where the luxury brands will be highly sought-after due to stronger economic growth and greater disposal income of citizens over there. 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 a due course to consolidate and expand our market presence.

Transition toward NEV has been put to the strategic height of the Company. We will continue to make efforts to explore the new business model for traditional dealership in the world of electrification. The Company will nurture the investment in Dangdang New Energy and seek to unlock its value in a due course.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB17,981.1 million for 2021, represents an increase of 21.9% as compared with RMB14,746.9 million for 2020.

Revenue from sales of vehicles amounted to RMB15,609.7 million, which representing an increase of 21.1% from 2020. Revenue from after-sales and accessories business amounted to RMB2,326.3 million, accounting for 12.9% to the total revenue, and representing an increase of 27.9% as compared to the year ended 31 December 2020.

Cost of sales and services

Cost of sales and services of the Group for 2021 amounted to RMB16,229.8 million, which represents an increase of 20.7% from 2020. Among them, the cost of vehicles sales in 2021 was RMB14,945.4 million, representing an increase of 20.1% from RMB12,444.5 million recorded in the corresponding period in 2020. The cost of after-sales services in 2021 was RMB1,284.4 million, representing an increase of 28.0% from RMB1,003.6 million recorded in the corresponding period in 2020. The reason for the increase in costs this year is mainly due to the increase in business volume for both vehicles sales and aftersales service business.

Gross profit and gross profit margin

Gross profit of the Group was RMB1,751.3 million for 2021, representing an increase of 34.8% as compared with RMB1,298.8 million in 2020. Among them, due to the market recovery after COVID-19 impact in the first half of the year and the improvement of gross margin in the second half of year, the gross profit of car sales in 2021 was RMB664.3 million, representing an increase of 48.1% compared to 2020. The gross profit of after-sales service in 2021 was RMB1,041.9 million, representing an increase of 27.9% compared to 2020.

Gross profit margin of the Group in 2021 was 9.7%, representing an increase of 0.9 percentage point from 8.8% recorded in the corresponding period in 2020. Among them, the gross profit margin of the sales of vehicles in 2021 was 4.3%, representing an increase of 0.8 percentage point compared to 2020. The gross profit margin of after-sales service in 2021 was 44.8%, keeping the same with 2020.

Selling & Administrative expenses

In 2021, Selling and Administrative expenses of the Group amounted to RMB1,136.7 million, representing an increase of 28.0% from RMB888.3 million in 2020 which was mainly due to the growth of sales.

Other income and gains, net

Other income and gains, net of the Group amounted to RMB443.0 million in 2021. (2020: RMB339.5 million).

Other income and gains mainly comprises the commission income (from insurance agency and vehicle financing agency service), income from advertisement support from automobile manufacturers, interest income, government grants, rental income, impairment of non-financial 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 2021 was RMB130.9 million, representing a decrease of 2.4% from RMB134.1 million for 2020. The Group improved the management of working capital and the interest paid for car-related financial companies decreased due to accelerated inventory turnover in this year.

Profit for the year attributable to the owners of the parent

The Group's profit for the year attributable to owners of the parent for 2021 was RMB673.2 million. Among which, excluding the impact of non-recurring items, the adjusted profit for the year attributable to owners of the parent for 2021 amounted to RMB739.3 million, representing a growth of 49.4% as compared to the RMB494.9 million in 2020.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group's primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and to fund our working capital and operating expenses. The Group's liquidity needs were financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at December 31, 2021, cash and bank balances of the Group totaled RMB1,629.2 million. (2020: RMB1,714.3 million).

In 2021, our net cash generated from operating activities was RMB776.1 million, net cash used in investing activities was RMB589.3 million, and net cash used in financing activities was RMB271.9 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, 2021, the Group had net current assets of RMB2,741.3 million increased by 40.2% as compared to RMB1,954.7 million as at December 31, 2020, which was mainly due to the adjustment of other receivables from non-current to current.

Capital expenditure

In 2021, the Group's capital expenditure was RMB522.7 million (2020: 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 and renovation and improvement expenditures related to the upgrading of certain BMW 4S outlets to lead stores.

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Inventories increased by 3.3% from RMB1,093.6 million as at December 31, 2020 to RMB1,129.6 million as at December 31, 2021.

The Group's average inventory turnover days for 2021 were 25.0 days, which decreased by 7.0 days as compared to 2020. The drop of inventory turnover days was not only due to the rebound of domestic consumption after the epidemic and the support of policies, the 4S stores of the Group also 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.

Bank loans and other borrowings

As at December 31, 2021, the Group had bank loans and other borrowings in the aggregate amount of RMB2,630.0 million, representing a year-on-year increase of 1.0% as compared to RMB2,604.4 million as at December 31, 2020.

	December 31, 2021	December 31, 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans repayable		
Within one year	1,622,591	1,826,745
Other borrowings repayable:		
Within one year	1,007,387	777,665
	<u>2,629,978</u>	<u>2,604,410</u>

As at December 31, 2021, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 39.3%, representing a slight increase of 0.4 percentage point as compared with that of December 31, 2020.

As at December 31, 2021, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Company's assets. The Company's assets, subject to these mortgages or pledges as at December 31, 2021, mainly consisted of (i) inventories in the amount of RMB403.0 million; (ii) property, plant and equipment in the amount of RMB14.4 million, and (iii) land use rights in the amount of RMB4.8 million. In addition, certain of the Group's bank loans and other borrowings were mainly guaranteed by the certain Directors of the Company or legal representative of certain subsidiaries of the Company or the Group's subsidiaries as at December 31, 2021.

Contingent liabilities

As at December 31, 2021, 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 our debt. Increases in interest rate could result in an increase in the Group's cost of borrowing. If this occurs, it could adversely affect the Group's finance costs, profit and the Group's financial condition. The interest rates on bank loans and overdrafts in China depend on the benchmark lending rates published by the People's Bank of China. The Group does not currently use any derivative instruments to manage its interest rate risk.

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

Employees and remuneration policies

As at December 31, 2021, the Group had a total of 4,551 employees (2020: 4,206). The increase in the number of employees is mainly due to the expansion of the company's business.

Relevant staff cost for 2021 was approximately RMB464.1 million (including employee share incentive of RMB1.3 million), while the staff cost was approximately RMB352.8 million for 2020 (including employee share incentive of RMB26.2 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, 2021, the Company had 43,516,000 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 2021 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, 2021, the Company repurchased a total of 14,029,000 of ordinary shares of HK\$0.01 each on the Stock Exchange for a total consideration of approximately HK\$50,502,403.70 (excluding transaction cost). The 7,241,000 repurchased shares were subsequently cancelled on August 11, 2021. 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) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
June 2021	6,287,000	3.40	3.24	20,930,625.10
July 2021	954,000	3.43	3.30	3,260,701.60
November 2021	6,480,000	4.19	3.70	25,027,548.60
December 2021	308,000	4.20	4.14	1,283,528.40
Total	14,029,000			50,502,403.70

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, 2021.

EVENTS AFTER THE REPORTING PERIOD

As of the end of the Reporting Period of 31 December, 2021 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 HKD0.21 for each ordinary share for the year ended December 31, 2021. 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 16, 2022 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, 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 of Hong Kong Limited.

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, 2021.

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, 2021 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, 2021. 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, 2021.

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 21, 2022

As of the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Feng Shaolun, Mr. Liu Fenglei, Ms. Ma Lintao, and Mr. Cheng Junqiang; and the independent non-executive directors of the Company are Mr. Wang Nengguang, Mr. Lau Kwok Fan and Mr. Chan Ying Lung.