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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)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

RESULTS HIGHLIGHTS

For the six months ended 30 June 2022:

- The Group recorded the new vehicle sales volume at 17,190, representing a decrease of 23.4% compared with the same period of last year. In respect of ultra-luxury brands, Ferrari, Bentley and Rolls-Royce respectively registered an increase of 365.2%, 10.3% and 2.4% in terms of sales volume compared with the same period of last year.
- The revenue from the main business of the Group stood at RMB7,940.1 million in the first half of 2022, representing a decrease of 15.3% compared with the same period of last year.
 - The revenue of selling new vehicles decreased by 16.3% compared with the same period of last year to RMB6,906.3 million of this year.
 - The revenue from after-sales services and brand businesses recorded a decrease of 8.8% to RMB1,000.7 million.
- The net cash generated from operation activities of the Group was RMB618.1 million in the first half of 2022, representing an increase of 33.6% compared with the same period of last year.
- Due to the decrease in fair value of equity interests in FMC (BYTON) project, the Group made a full provision to its carrying value, resulting in a net loss of the Group for the six months ended 30 June 2022 of RMB908.4 million.
- Excluding the provision of the equity investment in FMC (BYTON), the adjusted profit of the Group was RMB308.7 million for the six months ended 30 June 2022, representing a decrease of 25.5% compared to the same period of last year.

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 2022 (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 2022

		Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
	Notes	(Unaudited)	(Unaudited)
REVENUE	4	7,940,132	9,373,909
Cost of sales and services		(7,248,317)	(8,514,740)
GROSS PROFIT		691,815	859,169
Other income and (losses)/gains, net	5	(976,286)	243,680
Selling and distribution expenses		(387,905)	(426,794)
Administrative expenses		(101,637)	(111,112)
(LOSS)/PROFIT FROM OPERATIONS		(774,013)	564,943
Finance costs	6	(57,030)	(61,207)
Share of profits/(losses) of joint ventures		4	(5)
Share of (losses)/profits of associates		(617)	554
(LOSS)/PROFIT BEFORE TAX		(831,656)	504,285
Income tax expense	7	(76,704)	(103,699)
(LOSS)/PROFIT FOR THE PERIOD	8	(908,360)	400,586
Other comprehensive income/(loss) after tax:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		28,627	(25,756)

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
<i>Notes</i>	(Unaudited)	(Unaudited)
Other comprehensive income/(loss) for the period, net of tax	<u>28,627</u>	<u>(25,756)</u>
Total comprehensive (loss)/income for the period	<u><u>(879,733)</u></u>	<u><u>374,830</u></u>
(Loss)/profit for the year attributable to:		
Owners of the Company	(914,838)	390,836
Non-controlling interests	<u>6,478</u>	<u>9,750</u>
	<u><u>(908,360)</u></u>	<u><u>400,586</u></u>
Total comprehensive (loss)/income for the year attributable to:		
Owners of the Company	(886,211)	365,080
Non-controlling interests	<u>6,478</u>	<u>9,750</u>
	<u><u>(879,733)</u></u>	<u><u>374,830</u></u>
(Loss)/earnings per share attributable to owners of the Company		
Basic (<i>RMB</i>)	<u><u>(0.604)</u></u>	<u><u>0.254</u></u>
Diluted (<i>RMB</i>)	<u><u>(0.602)</u></u>	<u><u>0.253</u></u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
<i>Notes</i>	(Unaudited)	(Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	3,052,401	3,054,559
Right-of-use assets	854,949	823,118
Intangible assets	148,656	149,665
Goodwill	141,791	141,791
Prepayments and other assets	421,205	421,189
Finance lease receivables	246,398	246,026
Investment in joint ventures	7,777	7,773
Investment in associates	6,157	6,774
Financial assets at fair value through profit or loss	—	1,217,011
Financial assets at fair value through other comprehensive income	8,604	8,604
Deferred tax assets	84,004	75,514
	<hr/>	<hr/>
Total non-current assets	4,971,942	6,152,024
CURRENT ASSETS		
Finance lease receivables	239,555	232,465
Inventories	1,297,704	1,129,635
Trade receivables	<i>11</i> 158,876	148,149
Prepayments, other receivables and other assets	3,484,485	3,760,416
Investments at fair value through profit or loss	81,504	81,504
Pledged and restricted bank deposits	210,680	87,752
Cash in transit	34,145	27,454
Cash and bank balances	1,622,352	1,629,199
	<hr/>	<hr/>
Total current assets	7,129,301	7,096,574

		30 June	31 December
		2022	2021
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Audited)
CURRENT LIABILITIES			
Bank loans and other borrowings		2,197,684	2,629,978
Trade and bills payables	12	433,448	217,265
Other payables and accruals		1,181,450	1,175,087
Lease liabilities		78,851	109,357
Income tax payable		209,632	223,632
		<hr/>	<hr/>
Total current liabilities		4,101,065	4,355,319
		<hr/>	<hr/>
NET CURRENT ASSETS		3,028,236	2,741,255
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,000,178	8,893,279
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liabilities		848,257	792,058
Deferred Tax Liabilities		57,994	58,659
		<hr/>	<hr/>
Total non-current liabilities		906,251	850,717
		<hr/>	<hr/>
NET ASSETS		7,093,927	8,042,562
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	13	12,291	12,480
Reserves		7,001,976	7,954,900
		<hr/>	<hr/>
		7,014,267	7,967,380
Non-controlling interests		79,660	75,182
		<hr/>	<hr/>
TOTAL EQUITY		7,093,927	8,042,562
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 (the “**Listing Rules**”) 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 2021 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 2021.

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

For the Reporting 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 2022. 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>		
— Revenue from the sale of automobiles and others	6,906,252	8,251,280
— Provision of after-sales services	1,000,734	1,096,767
<i>Revenue from other sources</i>		
— Finance leasing services	33,146	25,862
	<u>7,940,132</u>	<u>9,373,909</u>

Disaggregation of revenue from contracts with customers:

Type of goods or services

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of automobiles and others	6,906,252	8,251,280
Provision of after-sales services	1,000,734	1,096,767
	<u>7,906,986</u>	<u>9,348,047</u>
Total revenue from contracts with customers	<u>7,906,986</u>	<u>9,348,047</u>

Timing of revenue recognition

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Goods received by the customer at a point in time	6,906,252	8,251,280
Services rendered at a point in time	1,000,734	1,096,767
	<u>7,906,986</u>	<u>9,348,047</u>
Total revenue from contracts with customers	<u>7,906,986</u>	<u>9,348,047</u>

5. OTHER INCOME AND (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Commission income	192,181	226,402
Interest income from loans and advances to a third party	21,405	18,602
Bank interest income	8,771	7,048
Fair value loss on financial asset at fair value through profit or loss	(1,217,011)	(13,665)
Fair value loss on investment at fair value through profit or loss	—	(1,041)
Others	18,368	6,334
	<u>(976,286)</u>	<u>243,680</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	33,436	40,250
Leases interests	23,594	20,957
	<u>57,030</u>	<u>61,207</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current Mainland China corporate income tax		
Provision for the year	84,529	115,265
Deferred tax credit	<u>(7,825)</u>	<u>(11,566)</u>
	<u>76,704</u>	<u>103,699</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 16.5% (2021: 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% (2021: 25%).

8. (LOSS)/PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Directors' remuneration	3,553	3,654
Fair value loss on financial asset at fair value through profit or loss	1,217,011	13,665
Fair value loss on investment at fair value through profit or loss	—	1,041
Gain on disposal of property, plant and equipment	(2,907)	(8,381)
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	172,423	173,508
Equity-settled share option expenses	—	1,349
Other welfare	30,361	33,347
Cost of sales and services:		
Cost of sales of automobiles	6,683,635	7,906,659
Cost of aftersales services	564,682	608,081
	<u>7,248,317</u>	<u>8,514,740</u>

9. DIVIDENDS

At the annual general meeting held on 16 June 2022, a final dividend of HK\$0.21 (equivalent to approximately RMB0.17) in respect of the year ended 31 December 2021 per ordinary share was approved, for a total of approximately HK\$324,869,000 (equivalent to approximately RMB277,346,000). The dividend was paid on 16 August 2022 (2021: a final dividend of RMB0.066 in respect of the year ended 31 December 2020 per ordinary share with aggregate amount of approximately RMB104,077,000).

The Board recommends not to declare any interim dividend for the six months ended 30 June 2022 (2021: nil).

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the following:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings:		
(Loss)/profit for the period attributable to owners of the Company used in the basic earnings per share calculation	<u>(914,838)</u>	<u>390,836</u>
Number of shares:	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,515,615	1,539,416
Effect of dilution		
<i>weighted average number of ordinary shares:</i>		
— Share options	<u>4,741</u>	<u>4,272</u>
	<u>1,520,356</u>	<u>1,543,688</u>

11. TRADE RECEIVABLES

The aging analysis of trade receivables as at the balance sheet date, based on the date of recognition of the service income or goods sold, is as follows:

	At	At
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 3 months	141,184	128,297
3 months to within 1 year	<u>17,692</u>	<u>19,852</u>
	<u>158,876</u>	<u>148,149</u>

12. TRADE AND BILLS PAYABLES

The aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of consumables or goods purchased, is as follows:

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Within 3 months	391,584	212,083
3 to 6 months	37,189	2,762
6 to 12 months	2,771	636
Over 12 months	1,904	1,784
	433,448	217,265

13. SHARE CAPITAL

	Number of issued and fully paid shares	Amount <i>RMB'000</i>
At 31 December 2021 (Audited)	1,569,758,677	12,480
Shares repurchased and cancelled	<u>(22,762,000)</u>	<u>(189)</u>
At 30 June 2022 (Unaudited)	<u>1,546,996,677</u>	<u>12,291</u>

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

14. RELATED PARTY TRANSACTIONS

Mr. Feng Changge is the Chairman, the Director and the controlling shareholder of the Company and is considered a related party of the Group.

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the period:

Transactions with a related party

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Repayment from Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.	—	1,624

15. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2022 and 31 December 2021.

16. CAPITAL COMMITMENTS

	At	At
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(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	82,948	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 26 August 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2022, China's automobile industry faced triple pressure of supply shock, demand contraction and weakening expectations, and production and operation in the industry encountered great difficulties. According to the China Passenger Cars Association (CPCA), the generalized passenger car retail market sales in the first half of 2022 were 9.396 million units, representing a year-on-year decrease of 6.8%, mainly due to the severe pandemic prevention and control situation from March to April in the first half of the year. Since May, the CPC Central Committee and the State Council timely launched a series of policy measures to stabilize automobile growth and promote automobile consumption in accordance with the changing situation, and the general recovery of the automobile industry at the end of the second quarter was good.

The market share of luxury brands in the Reporting Period was 13.7%, decreasing by 1 percentage point from 14.8% last year. Among the tier-one luxury brands, BMW (including Mini) ranked first with sales of 378,700 units in the first half of the year, followed by its two main competitors, Benz and Audi. Notably, BMW's sales of pure electric models in China continued their strong momentum, up 74.6% year-on-year. Lexus' sales in the first half of 2022 were less impressive due to supply chain issues, with a 29.5% year-on-year decline from January to June.

While the problem of supply constraint due to structural shortage of chips remains, the weakening demand due to the pandemic and macro economy directly affects retail sales volume and inventory. The China Automobile Dealers Association revealed that the overall inventory level of dealership averaged around 1.68 months in the first half of 2022, slightly higher than the average level of 1.55 months in the first half of 2021. The high level of level of dealers' inventory leads to limited pricing dynamics in the market. As a result, dealers' gross profit margin on new cars sales declined in the Reporting Period.

In the context of recurring pandemics, parts outages and other factors, new energy vehicle sales have increased steadily. Despite the production and sales restrictions in the first half of the year, the major car companies attached great importance to new energy vehicle products, and supply chain resources were prioritized to gravitate toward new energy vehicles, with the overall production and sales performance beating expectations and each new energy vehicle brand maintaining a high growth rate. According to data from the China Association of Automobile Manufacturers, the production and sales of new energy vehicles in the first half of this year were 2.661 million units and 2.6 million units respectively, an increase of 1.2 times year-on-year. Among them, the penetration rate of new energy passenger cars has reached 24%. BYD, which has announced the discontinuation of fuel car production, surpassed Tesla with sales of 633,700 units, becoming the global champion of new energy vehicle sales in the first half of 2022, while the Shanghai Tesla giga factory was affected by the pandemic. Mainstream new power brands also achieved varying degrees of year-over-year growth. Against the backdrop of reaching carbon peak and neutrality in the long run, China's electric vehicle (EV) consumption is not only supported by policy, but is increasingly gaining popularity among consumers.

Industry Outlook

Thanks to a series of policies promulgated by national and local governments to promote automobile consumption, including financial subsidies, purchase tax reduction and relaxation of automobile purchase restrictions, the automobile dealership industry is gradually entering the booming zone. From the demand side, car purchasing and replacement will lead the structural growth of China's automobile consumption, and luxury brands will continue to maintain strong momentum. On the other hand, under the impetus of achieving the target of "dual-carbon", the new energy vehicles show a good situation of "double improvement" in market scale and development quality. While traditional high-end automobile manufacturers are looking for new breakthroughs, dealers also need to diversify into new business models. For the industry outlook in the second half of 2022, we see both opportunities and challenges. There is uncertainty in the industry as the pandemic has yet to subside, compounded by chip shortages and continued high raw material prices. However, there is still room for growth and potential in China in terms of car ownership. Some cities have made policy adjustments, such as promoting the accelerated flow of the used car market, gradually removing local restrictive policies, and driving the growth and expansion of the new car market through the revitalization of used cars. Overall, there is more room for growth in China's automobile consumption.

BUSINESS OVERVIEW

Performance of the Company in the first half of 2022 was impacted by the domestic pandemic prevention policies, and some of its stores were in the lockdown zones or had to close temporarily. Due to the high base effect in the same period of the previous year, most brands had different degrees of year-on-year decline, but some ultra-luxury brands had strong growth. Overall, the Company delivered 17,190 units in the first half of 2022, down 23.4% year-on-year.

Among the Company's existing brand matrix, ultra-luxury brands have demonstrated strong demand resilience and weak economic cycle attributes, with Ferrari, Bentley and Rolls-Royce showing bright sales results, with sales increasing 365.2%, 10.3% and 2.4% year-on-year in the first half of 2022, respectively. During the Reporting Period, the Company added a new Bentley store to its distribution network in Beijing. By now, the Company has become the largest dealer of the Bentley brand in the central region. In addition, the Company further expanded its market share of the Ferrari brand in the Mainland, accounting for nearly 25% of its total sales in Mainland China in the first half of 2022. Against the backdrop of dampened consumer confidence in the second quarter, demand for car purchasing and replacement of luxury brands weakened. Overall, the Company delivered 13,090 units of BMW (including Mini) in the first half, down 23.5% year-on-year, and 1,828 units of Lexus, down 23.3% over the same period.

In terms of inventory, some stores in Shanghai, Beijing and Henan Province were intermittently suspended due to the recurring pandemic, and the sales pace was impacted in varying degrees, with inventory turnover days increasing by 5.6 days to 30.6 days compared to the end of last year.

The Company continues to focus on the development of the used car and EV sectors, with 3,064 used cars transacted in the first half of the year. Trade-in and replacement services have been able to effectively balance our costs and revenues on the financial level. In the EV sector, Dangdang New Energy, in which the Company made a strategic investment several years ago, is a comprehensive EV service provider covering sales and after-sales service of EVs. At present, Dangdang New Energy has been authorized by major EV brands such as Li Auto, NIO, XPENG, GAC Aion and VOYAH to provide sales and after-sales services for customers.

Business Outlook

Looking ahead, the Company will continue to focus on its principal business while also changing to electric intelligence. Luxury and ultra-luxury brand track growth space is still sustainable. In addition to the promotion fee policy, the rhythm of issuance of special bonds in various regions is pre-emptive and continuous efforts are made in the field of new infrastructure, the per capita disposable income of residents and consumer confidence are expected to rebound, and the high-end car market still has strong vitality. In addition to maintaining our current portfolio of dominant brands (BMW, Lexus, Ferrari, Bentley and Rolls-Royce), the Company will implement an acquisition strategy in due course to consolidate and expand our market share. At the same time, we believe the Company is capable of further strengthening its profitability by optimizing all expense ratios and improving operational efficiency. The trend of electric intelligence in the luxury and ultra-luxury market is so clear that the transformation to electric vehicles has become one of the important strategies of the Company in the medium and long term. The Company will continue its efforts to explore the business model of traditional distributors in the new trend.

FINANCIAL OVERVIEW

Revenue

The Group recorded a revenue of RMB7,940.1 million in the first half of 2022, representing a decrease of 15.3% compared with that of RMB9,373.9 million for the same period of last year. Among which, the sales revenue of new vehicles recorded a decrease of 16.3%, from RMB8,251.3 million to RMB6,906.3 million, accounting for 87.0% of the total revenue of the first half of 2022. While the after-sales services and brand business recorded a revenue of RMB1,000.7 million, representing a decrease of 8.8% compared with that of RMB1,096.8 million for the same period in 2021 and accounting for 12.6% of the total revenue of the first half of 2022.

In respect of ultra-luxury brands, Ferrari, Bentley and Rolls-Royce respectively recorded an increase of 416.2%, 29.2% and 21.8% in terms of new cars sales revenue. As for luxury car brands, the sales revenue of BMW (including MINI) and Lexus respectively recorded a decrease of 23.4% and 18.1%.

Cost of sales and services

The cost of sales and services of the Group also recorded a decrease of 14.9% from RMB8,514.7 million in the first half of 2021 to RMB7,248.3 million in the same period of 2022. The cost of new car sales and after-sale services were respectively RMB6,683.6 million and RMB564.7 million, representing a decrease of 15.5% and 7.1%.

Gross profit and gross profit margin

The gross profit of the Group decreased by 19.5% from RMB859.2 million in the first half of 2021 to RMB691.8 million in the same period of 2022. The gross profit of selling new vehicles declined by 35.4% from RMB344.6 million in the first half of 2021 to RMB222.6 million in the same period of 2022. The gross profit of after-sale services and brand businesses declined by 10.8% from RMB488.7 million in the first half of 2021 to RMB436.0 million in the same period of 2022.

The Group's gross profit margin in the first half of 2022 stood at 8.7%, among which, the gross profit of selling new vehicles in the first half of 2022 was 3.2%, representing a decrease of 1.0 percentage point compared with that of 2021. The gross profit of after-sale services in the Reporting Period was 43.6%, representing a decrease of 1.0 percentage points compared with that of 2021.

Selling and distribution expense

The Group's selling and distribution expense in the Reporting Period was RMB387.9 million, which decreased by 9.1% due to the decline of sales.

Other income and (losses)/gains, net

In the Reporting Period, the Group recorded other net income and gains of negative RMB976.3 million, which registered significant fall compared with that 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, and the fair value changes on investments at fair value through profit or loss. The decrease in the first half of 2022 was mainly due to the fair value changes on the FMC investment which registered a full provision of RMB1,217.0 million. Excluding the FMC influence, the other net income and gains of the Group was RMB240.7 million, a slight decrease of 6.5% compared to the same period of last year.

Finance costs

The Group's finance costs in the Reporting Period was RMB57.0 million, representing a decrease by 6.8% compared to that of 2021. The decrease was mainly attributed to the decrease of the average balance of borrowings and enhancement of loan management capabilities during the Reporting Period.

Operation loss

To conclude, the operation loss of the Group in the Reporting Period was RMB774.0 million, while the figure of the first half of 2021 was an operation profit of RMB564.9 million. The decrease was mainly due to the full provision of the equity investment of FMC.

Loss attributable to the owners of the parent

In the first half of 2022, the loss attributable to the owners of the parent was RMB914.8 million. Excluding the full provision of the equity investment of FMC, the figure would be a profit of RMB302.2 million, while figure in the first half of 2021 was a profit of RMB404.5 million.

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 of 30 June 2022, the total cash and deposits of the Group is RMB1,622.4 million. In the first half of 2022, the net cash generated from operation activities of the Group is RMB618.1 million; the net cash used for investment activities is RMB58.6 million; the net cash used for financing activities is RMB595.6 million.

Net current assets

As at 30 June 2022, the net current assets of the Group was RMB3,028.2 million, representing an increase of 10.5% from RMB2,741.3 million as at 31 December 2021.

Capital expenditure

The Group's capital expenditure comprises of its expenses on plant, property, equipment and the assets with using rights. In the Reporting Period, 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 RMB77.5 million (the same period of 2021: RMB170.1 million). The reason of the decrease was that the group slow down its expansion due to the strict epidemic prevention policies.

Inventory

The inventories of the Group are mainly passenger cars and supporting components. During the period, the inventories increased slightly by RMB168.1 million from RMB1,129.6 million as of 31 December 2021 to RMB1,297.7 million as of 30 June 2022. The Group recorded a slight increase of inventories and the Group's average turnover days for inventories in the first half of 2022 is 30.6 days, while the figure in the first half of 2021 is 23.7 days. The Group's turnover days increased by 6.9 days. The increase in inventories and inventory turnover days was mainly due to the strict epidemic prevention policies against COVID-19 in mainland China, such as lock-down, in the second quarter of this year.

Bank loans and other borrowings

As of 30 June 2022, the total bank loans and other borrowings of the Group is RMB2,197.7 million, representing a decrease of 16.4% compared to the figure on 31 December 2021, RMB2,630.0 million.

	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans		
should be repaid within one year	1,465,476	1,622,591
Other borrowings:		
should be repaid within one year	732,208	1,007,387
Total	<u>2,197,684</u>	<u>2,629,978</u>

As of 30 June 2022, the gearing ratio of the Group (the result of total liabilities divided by total assets) is 41.4%, representing an increase of 2.1 percentage point than that on 31 December 2021.

Contingent liabilities

As of 30 June 2022, the Company has no material contingent liabilities or guarantees (31 December 2021: Nil).

Interest rate risk and foreign exchange risk

The Group is exposed to the risks arising from the fluctuation of loan rates. The rising of loan rates may incur additional borrowing costs of the Group. If this is the case, then it may cause adverse effects 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. 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 or US dollars, which makes it subject to potential conversion differences as a result of the fluctuation of foreign exchange rates on financial statements.

Employees and remuneration policies

As of 30 June 2022, the Group has 3,901 employees (31 December 2021: 4,551 employees). 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 mainland China and to the mandatory provident fund scheme in the Hong Kong Special Administrative Region of the People's Republic of China.

In addition, eligible employees are also entitled to share awards under the share award scheme and to the share options under the share option scheme. During the Reporting Period, to safeguard the benefits of all shareholders, the Group has not granted shares awards in accordance with any share award scheme. As at 30 June 2022, the Group has 42,191,000 outstanding share options under share option scheme, accounting for approximately 2.7% of the shares the Company issued on that date. For more information about the share option scheme, please refer to the 2022 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 19,003,000 ordinary shares of HK\$0.01 each on the Stock Exchange for a total consideration of approximately HK\$74,908,767.90 (excluding transaction cost). The 15,974,000 repurchased shares were subsequently cancelled on 10 June 2022. 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\$)	
January 2022	5,638,500	4.91	4.12	26,325,433.25
February 2022	3,847,000	4.33	3.87	15,469,714.30
March 2022	460,000	3.99	3.67	1,729,902.35
April 2022	3,100,000	3.90	3.40	11,185,787.75
May 2022	3,008,500	3.71	3.34	10,480,918.30
June 2022	2,949,000	3.53	3.00	9,717,011.95
Total	<u>19,003,000</u>			<u>74,908,767.90</u>

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 26 August 2022, the Board resolved not to pay interim dividends to the shareholders of the Company (2021: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2022, the Company has complied with the applicable principles and code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules.

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 2022.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the requirements of 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 unaudited interim results for the six months ended 30 June 2022.

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, 26 August 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.