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 2023

RESULTS HIGHLIGHTS

For the six months ended 30 June 2023:

- The Group recorded the new vehicle sales volume at 17,571, representing an increase of 2.2% compared with the same period of last year.
- The Group recorded a revenue of RMB8,109.5 million in first half of 2023, representing an increase of 2.1% compared with that of RMB7,940.1 million for the same period of last year. Among which,
  - — the revenue of sale of automobiles and others decreased by 0.8% compared with the same period of last year to RMB6,852.6 million of this year.
  - — the revenue of provision of after-sales services increased by 23.0% compared with the same period of last year to RMB1,231.4 million of this year.
- The Group's commission income from providing car-related financial services and insurance agent services for the Reporting Period increased by 10.0% to RMB211.3 million as compared with the same period of last year.
- The profit for the period of the Group was approximately RMB208.3 million, and excluding the impact of the non-recurring losses arising from the full provision made to the carrying amount of the Group's equity investment in FMC for the same period last year, the profit for the Reporting Period decreased by 32.5% compared with the same period 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 interim financial results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 (the "**Reporting Period**"), together with comparative figures for the period ended 30 June 2022.

The unaudited consolidated interim financial 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 OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
REVENUE	*4*	**8,109,469**	7,940,132
Cost of sales and services		**(7,528,121)**	(7,248,317)
GROSS PROFIT		**581,348**	691,815
Other income and gains/(losses), net	*5*	**258,028**	(976,286)
Selling and distribution expenses		**(397,290)**	(387,905)
Administrative expenses		**(105,308)**	(101,637)
PROFIT/(LOSS) FROM OPERATIONS		**336,778**	(774,013)
Finance costs	*6*	**(64,303)**	(57,030)
Share of profits of joint ventures		**33**	4
Share of losses of associates		**(1,025)**	(617)
PROFIT/(LOSS) BEFORE TAX		**271,483**	(831,656)
Income tax expense	*7*	**(63,228)**	(76,704)
PROFIT/(LOSS) FOR THE PERIOD	*8*	**208,255**	(908,360)
Other comprehensive (loss)/income after tax:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(32,455)**	28,627
Other comprehensive (loss)/income for the period, net of tax		**(32,455)**	28,627
Total comprehensive income/(loss) for the period		**175,800**	(879,733)

	Notes	Six months ended 30 June **2023** *RMB'000* **(Unaudited)**	2022 *RMB'000* (Unaudited)
Profit/(loss) for the period attributable to:			
Owners of the Company		**201,224**	(914,838)
Non-controlling interests		**7,031**	6,478
		208,255	(908,360)
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		**168,769**	(886,211)
Non-controlling interests		**7,031**	6,478
		175,800	(879,733)
Earnings/(loss) per share attributable to owners of the Company	*10*		
Basic *(RMB)*		**0.113**	(0.604)
Diluted *(RMB)*		**0.113**	(0.602)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Notes	**30 June 2023** **RMB'000** **(Unaudited)**	31 December 2022 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,896,679**	2,964,993
Right-of-use assets		**818,375**	849,323
Intangible assets		**144,771**	147,116
Goodwill		**141,791**	141,791
Prepayments and other assets		**480,005**	485,205
Finance lease receivables		**195,757**	178,596
Investment in joint ventures		**7,805**	7,772
Investment in associates		**2,062**	3,087
Financial assets at fair value through profit or loss		**—**	—
Financial assets at fair value through other comprehensive income		**—**	—
Deferred tax assets		**79,790**	82,321
Total non-current assets		**4,767,035**	4,860,204
CURRENT ASSETS			
Finance lease receivables		**213,407**	263,198
Inventories		**1,393,016**	1,540,438
Trade receivables	*12*	**185,174**	197,882
Prepayments, other receivables and other assets		**2,480,208**	2,534,426
Pledged and restricted bank deposits		**287,482**	220,347
Cash in transit		**30,234**	24,070
Cash and bank balances		**1,254,957**	1,161,992
Total current assets		**5,844,478**	5,942,353
CURRENT LIABILITIES			
Bank loans and other borrowings		**1,864,224**	2,083,023
Trade and bills payables	*13*	**691,134**	635,135
Other payables and accruals		**769,593**	918,298
Lease liabilities		**86,489**	90,510
Income tax payable		**143,631**	172,561
Total current liabilities		**3,555,071**	3,899,527

	Notes	**30 June 2023** *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
NET CURRENT ASSETS		**2,289,407**	2,042,826
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,056,442**	6,903,030
NON-CURRENT LIABILITIES			
Lease liabilities		**804,559**	819,071
Deferred tax liabilities		**56,547**	57,252
Total non-current liabilities		**861,106**	876,323
NET ASSETS		**6,195,336**	6,026,707
EQUITY			
Equity attributable to owners of the parent			
Share capital	*14*	**12,137**	12,293
Reserves		**6,098,284**	5,934,530
		6,110,421	5,946,823
Non-controlling interests		**84,915**	79,884
TOTAL EQUITY		**6,195,336**	6,026,707

NOTE TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. BASIS OF PREPARATION

The condensed consolidated interim 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 interim financial statements should be read in conjunction with the 2022 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2022.

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 2023. 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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
— Sale of automobiles and others	**6,852,564**	6,906,252
— Provision of after-sales services	**1,231,369**	1,000,734
Revenue from other sources		
— Finance leasing services	**25,536**	33,146
	8,109,469	7,940,132

Disaggregation of revenue from contracts with customers:

Type of goods or services

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sale of automobiles and others	**6,852,564**	6,906,252
Provision of after-sales services	**1,231,369**	1,000,734
Total revenue from contracts with customers	**8,083,933**	7,906,986

Timing of revenue recognition

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Goods received by the customer at a point in time	**6,852,564**	6,906,252
After-sales services rendered at a point in time	**1,231,369**	1,000,734
Total revenue from contracts with customers	**8,083,933**	7,906,986

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Commission income	**211,311**	192,181
Interest income from loans and advances to a third party	**22,374**	21,405
Bank interest income	**13,628**	8,771
Fair value loss on financial asset at fair value through profit or loss	**—**	(1,217,011)
Government grant	**3,652**	3,663
Others	**7,063**	14,705
	258,028	(976,286)

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	**41,091**	33,436
Leases interests	**23,212**	23,594
	64,303	57,030

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Mainland China corporate income tax		
Provision for the period	**60,339**	84,529
Deferred tax credit	**2,889**	(7,825)
	63,228	76,704

8. PROFIT/(LOSS) FOR THE PERIOD

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Directors' remuneration	**3,552**	3,553
Fair value loss on financial asset at fair value through profit or loss	**—**	1,217,011
Gain on disposal of property, plant and equipment	**(5,913)**	(2,907)
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**176,416**	172,423
Other welfare	**31,842**	30,361
Cost of sales and services:		
Cost of sales of automobiles	**6,801,967**	6,683,635
Cost of aftersales services	**726,154**	564,682
	7,528,121	7,248,317

9. DIVIDENDS

At the annual general meeting held on 13 June 2023, a final dividend of HK$0.066 (equivalent to approximately RMB0.06) in respect of the year ended 31 December 2022 per ordinary share was approved, for a total of approximately HK$100,936,748 (equivalent to approximately RMB91,760,680). The dividend was paid on 11 August 2023 (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 with aggregate amount of HK$324,869,302 (equivalent to approximately RMB277,346,000).

The Board recommends not to declare interim dividend for the six months ended 30 June 2023 (2022: Nil)

10. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Profit/(loss) for the period attributable to owners of the Company used in the basic earnings per share calculation	**201,224**	(914,838)
Number of shares:	***'000***	*'000*
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,490,138**	1,515,615
Effect of dilution		
weighted average number of ordinary shares:		
— Share options	**—**	4,741
	1,490,138	1,520,356

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group recorded an additional property, plant and equipment of approximately RMB124,527,000.

12. 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 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Within 3 months	**176,545**	191,481
3 months to 6 months	**6,754**	6,401
7 to 12 months	**1,875**	—
Over 12 months	**—**	—
	185,174	197,882

13. 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 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Within 3 months	**659,836**	596,491
3 to 6 months	**20,406**	16,257
6 to 12 months	**10,345**	21,429
Over 12 months	**548**	958
	691,134	635,135

14. SHARE CAPITAL

	Number of issued and fully paid shares	Amount *RMB'000*
At 31 December 2022 (Audited)	1,546,996,677	12,293
Shares repurchased and cancelled	(22,271,500)	(156)
At 30 June 2023 (Unaudited)	1,524,725,177	12,137

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

15. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2023 and 31 December 2022.

16. CAPITAL COMMITMENTS

Capital commitments of the Group in respect of property and equipment and capital contribution outstanding at each reporting date not provided for in these consolidated interim financial statements are as follows:

	At 30 June 2023 ***RMB'000*** **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Property, plant and equipment		
— Contracted, but not provided for	**48,583**	43,096

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 UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 29 August 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The first half of 2023 was the first full half of the automobile market after the end of the pandemic. The product and sales side of the automobile market were re-launched in full swing. According to the China Passenger Cars Association ("**CPCA**"), the generalized passenger car retail market sales in the first half of 2023 were 9.524 million units, representing a year-on-year increase of 2.7%. The sales volume of the automobile market continued to grow in the first half of 2023, and the overall sales volume of the automobile market has experienced a consecutive month-on-month increase since the launch of the "Price War" in the automobile market in March 2023. In order to ensure the healthy development of the automobile market, the "100-city linkage" and "Vehicles into more than 1,000 counties and more than 10,000 towns" activities to promote automobile market consumption have been launched at the national level. A number of activities will continue until the end of 2023. In June 2023, the automobile market sales also reached an annual high, and the penetration rate of new energy vehicles has also been maintained at over 30% during the first half of 2023 except for January.

In the first half of 2023, the sales of luxury car market in China recorded significant growth. According to the latest data from the CPCA, the cumulative retail sales volume of the domestic luxury car market was approximately 1,414,100 units in the first half of this year, representing a year-on-year increase of 11.8%, and continued to maintain growth since 2020, with a growth rate exceeding the overall market. The sales volume of the three major brands of BMW, Benz and Audi (collectively, "**BBA**") in China picked up together with the luxury vehicle market in China. The three major brands sold a total of 1,096,300 units in the Chinese market in the first half of the year.

In the first half of 2023, the total sales volume of BMW in the Chinese market was 392,600 units, representing a year-on-year increase of 3.7%. Among which, BMW's sales of pure electric models reached 44,900 units, representing a year-on-year increase of 283%; the sales volume of Benz vehicles was 377,200 units in the first half of the year, representing a year-on-year increase of 6%; the sales volume of Audi vehicles was 326,500 units in the first half of the year, representing a year-on-year increase of 2.2%. Lexus' sales in the first half of 2023 were less impressive, with a continuous decline in sales volume and a year-on-year decrease of 18.7% from January to June 2023.

Meanwhile, the external environment of the automobile market was complex in the first half of 2023, consumer demand recovered slowly, final transaction prices continued to decline, thus the automobile sales increased in volume but not in profit. According to China Automobile Dealers Association, in the first half of 2023, in terms of the profit structure of dealers, the proportion of profit from new car sales declined significantly from 19.7% at the end of 2022 to 4.9%. The overall average inventory level of dealership was maintained at around 1.69 months in the first half of 2023, basically the same as the average level of 1.68 months in the first half of 2022. The high level of dealers' inventory leads to limited pricing dynamics in the market.

According to CPCA, the accumulated retail sales volume of new energy vehicles in China reached 3.086 million units in the first half of 2023, representing a significant increase of 37.3% as compared with the same period of last year. In the first half of the year, BYD continued to rank first with an absolute advantage, with a cumulative sales volume of 1.155 million units, representing a significant year-on-year increase of 82.2% and accounting for 37.4% of the market share. Meanwhile, the sales volume of the brands of GAC Aion, Li Auto, Changan Auto and Tesla increased by 103.5%, 130.3%, 105.6% and 48.9% respectively in the first half of the year. Chinese brands accounted for 90% of the top ten new energy vehicle companies in terms of sales volume in China in the first half of this year.

The proactive leading role of the policy is an important factor influencing the rapid increase of new energy vehicles sales. Firstly, the automobile industry is an important pillar industry for the national economic development of China, among which, accelerating the innovation and development of new energy vehicles is the key development direction of the automobile industry. With the continuation of the tax reduction and exemption policy for the purchase of new energy vehicles, consumers' enthusiasm for the purchase of new energy vehicles has increased. At the same time, under the pressure of the local policies on vehicle use situation and restrictions on license plate and number, the competitive advantages of new energy vehicles have gradually emerged. Looking forward to 2023, China's new energy vehicle sales will further increase.

INDUSTRY OUTLOOK

Recently, the "Survey Report on the Survival Status of National Automobile Dealers in the First Half of 2023"(《2023年上半年全國汽車經銷商生存狀況調查報告》) (hereinafter referred to as the "**Report**") issued by the China Automobile Dealers Association shows that luxury and imported automobile dealers performed better in terms of profitability. In the first half of the year, 47% of luxury and imported car dealers were profitable, compared with 27.3% for joint ventures and 24% for own-brand dealers. This phenomenon is also consistent with the consumption characteristics of the automobile market. According to the CPCA, luxury car retail sales increased by 11% year-on-year from January to July this year, manifesting a strong market performance. On the demand side, the increase in replacement purchases will lead to the structural growth of China's automobile consumption, and luxury brands will continue to maintain a strong momentum.

On the other hand, the tax reduction and exemption policy for the purchase of new energy vehicles will be extended to 2027. The stability of new energy vehicle policy will benefit the new energy vehicle market in the long run, and the Company believes that the new energy vehicle market will continue to grow in the second half of the year. Meanwhile, the Measures on Promoting Automobile Consumption (《關於促進汽車消費的若干措施》) jointly issued by the National Development and Reform Commission (NDRC) and other departments on 21 July 2023 and the Measures on Recovering and Expanding Consumption

(《關於恢復和擴大消費的措施》) issued by the NDRC on 31 July 2023 emphasise the optimisation of the management policy of restricting the purchase of automobiles, the measures of which include not to impose new restrictions on the purchase of automobiles by each region, to promote automobile renewal consumption, and to increase financial support for automobile consumption. All these supportive government policies provide us with confidence in the potential of the entire automotive industry.

BUSINESS OVERVIEW

In the first half of 2023, the market recovered slowly and the price war lowered the final transaction price. Affected by the complex market environment, the Company achieved a sales volume of 17,571 units in the first half of the year, representing a year-on-year increase of 2.2%. Among which, the sales volume of ultra-luxury vehicles increased by 2.9%. Among the brands sold by the Company, the sales of BMW (including Mini) remained stable, representing a year-on-year increase of 3.1%; the sales volume of luxury brands such as Lincoln, Volvo, Audi and Land Rover increased by 17.2%, 10.1%, 9.6% and 36.0%, respectively. Ultra-luxury brands continued to demonstrate a strong demand resilience, with sales volume of Ferrari and Maserati increased by 20.6% and 4.4% respectively in the first half of the year. During the Reporting Period, the Company added two Ferrari stores in its distribution network, which are located in Zhengzhou and Xi'an, respectively. In the first half of 2023, the Company's Ferrari brand accounted for 21% of the market share in Mainland China.

In terms of inventory, due to the impact of market volatility and lack of consumer confidence in the first half of 2023, the turnover days was 35.6 days in the first half of the year, representing an increase of 3 days from 32.6 days as at the end of 2022, still within a healthy range. At the same time, the inventory structure will be gradually optimized in the second half of the year.

The Company's investment in used car and electric vehicles ("**EV**") sectors has achieved initial success. The trading volume of used car in the Group's sales network was 3,799 units in the first half of 2023, representing a year-on-year increase of 24.0%. The trade-in and replacement services have been able to effectively balance the costs and revenues at 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 EV. At present, Dangdang New Energy has been authorized by major EV brands such as Li Auto, NIO, XPENG, GAC Aion, GAC Hyper, LEAPMOTOR and VOYAH to provide sales and after-sales services for car owners.

BUSINESS OUTLOOK

Looking ahead, the Company will continue to focus on its principal business while also strive to transform to electric intelligence vehicles. During the first half of 2023, the BBA brand actively deployed new energy transformation in China, and the room for growth of the luxury and ultra-luxury brands is still sustainable. In addition to maintaining the Company's current portfolio of dominant brands (which include BMW, Lexus, Ferrari, Bentley and Rolls-Royce), the Company will implement merger and acquisition strategy in due course to consolidate and expand the market share. The Company will also actively respond to the national policy which encourages domestic new energy vehicle brands, actively expand channels and methods to cooperate with domestic new energy vehicle brands to assist in the development of the industry.

At the same time, the Company believes it is capable of further strengthening its profitability by optimizing all expense ratios and improving operational efficiency. 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 RMB8,109.5 million in the first half of 2023, representing an increase of 2.1% compared with that of RMB7,940.1 million for the same period of last year. Among which, the revenue of sale of automobiles and others recorded a decrease of 0.8%, from RMB6,906.3 million for the first half of 2022 to RMB6,852.6 million, accounting for 84.5% of the total revenue of the first half of 2023. While the provision of after-sales services recorded a revenue of RMB1,231.4 million for the first half of 2023, representing an increase of 23.0% compared with that of RMB1,000.7 million for the same period in 2022 and accounting for 15.2% of the total revenue of the first half of 2023.

Cost of sales and services

The cost of sales and services of the Group also recorded an increase of 3.9% from RMB7,248.3 million in the first half of 2022 to RMB7,528.1 million in the same period of 2023. The cost of sale of automobiles and others, and provision of after-sales services were RMB6,802.0 million and RMB726.2 million respectively for the first half of 2023, representing an increase of 1.8% and 28.6% as compared with the same period in 2022.

Gross profit and gross profit margin

The gross profit of the Group decreased by 16.0% from RMB691.8 million in the first half of 2022 to RMB581.3 million in the same period of 2023. The gross profit of sale of automobiles and others declined by 77.3% from RMB222.6 million in the first half of 2022 to RMB50.6 million in the same period of 2023. The gross profit of provision of after-sales services increased by 15.9% from RMB436.0 million in the first half of 2022 to RMB505.2 million in the same period of 2023.

The Group's gross profit margin in the first half of 2023 stood at 7.2%, among which, the gross profit margin of sale of automobiles and others in the first half of 2023 was 0.7%, representing a decrease of 2.5 percentage point compared with that of 2022. The gross profit margin of provision of after-sales services in the first half of 2023 was 41.0%, representing a decrease of 2.5 percentage points compared with that of 2022.

Selling and distribution expense

The Group's selling and distribution expense in the first half of 2023 was RMB397.3 million, representing an increase of 2.4% as compared with RMB387.9 million in the same period of 2022, which aligned with the increase of overall sales revenue.

Other income and gains, net

In the first half of 2023, the Group recorded other net income and gains of RMB258.0 million, which represented a significant year-on-year increase mainly due to the non-recurring losses arisen from a full provision made to the carrying amount of the Group's equity investment in Future Mobility Corporation Limited Cayman ("**FMC**") of approximately RMB1,217.0 million recorded only in the same period of 2022. Excluding the non-recurring effect of the provision made on the equity investment of FMC, the other net income and gains of the Group in the Reporting Period increased by 6.7% compared to the same period of last year. For details, please refer to the section headed "Other income and gains, net" of the 2022 annual report of the Group published on 27 April 2023. Other income and gains mainly came from the commission and interest income.

Finance costs

The Group's finance costs in the Reporting Period was RMB64.3 million, representing an increase by 7.3 million compared to the same period in 2022. The increase was mainly attributed to the increase of the financial service interest paid to the automobile manufacturers during the Reporting Period.

Operation profit

To conclude, the operation profit of the Group in the Reporting Period was RMB336.8 million, while in the first half of 2022, the Group recorded an operation loss of RMB774.0 million. The increase was mainly due to the non-recurring losses arisen from a full provision made to the carrying amount of the Group's equity investment in FMC recorded in the first half of 2022 and as disclosed in the section headed "Other income and gains, net" above in this announcement while there was no impairment provision in the first half of this year.

Profit attributable to the owners of the parent

In the first half of 2023, the profit attributable to the owners of the parent was RMB201.2 million, while figure in the first half of 2022 was a loss of RMB914.8 million. Excluding the full provision of the equity investment of FMC, the figure would be a profit of RMB302.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group mainly uses cash to purchase passenger cars and automobile accessories, 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.

As of 30 June 2023, the total cash and deposits of the Group is RMB1,255.0 million. In the first half of 2023, the net cash generated from operation activities of the Group is RMB448.5 million; the net cash used for investment activities is RMB8.4 million; the net cash used for financing activities is RMB314.7 million.

Net current assets

As at 30 June 2023, the net current assets of the Group was RMB2,289.4 million, representing an increase of 12.1% from RMB2,042.8 million as of 31 December 2022.

Capital expenditure

The Group's capital expenditure comprises of expenses on plant, property, equipment and right-of-use assets. During the Reporting Period, the Group's capital expenditure was RMB18.4 million (the same period of 2022: RMB77.5 million).

Inventory

The inventories of the Group are mainly passenger cars and automobile accessories. During the Reporting Period, the inventories decreased slightly by RMB147.4 million from RMB1,540.4 million as of 31 December 2022 to RMB1,393.0 million as of 30 June 2023. The Group's average turnover days for inventories in the first half of 2023 is 35.6 days, while the figure in the first half of 2022 is 30.6 days. The Group's turnover days increased by 5 days. The decrease in inventories and increase in inventory turnover days was mainly due to the annual average inventory in 2022 being lower than that of the Reporting Period.

Capital structure and treasury policies

The business activities of the Group are mainly financed by the share capital, interest-bearing bank loans and other borrowings and cash generated from the operating activities. The Directors will continue to follow a prudent policy in managing the Group's financial resources such as cash with the objective of maintaining a strong and healthy liquidity position to ensure that the Group is placed to seize future growth opportunities as and when such opportunities appear.

Interest rate risk and foreign exchange risk

The Group's bank deposits, bank loans and other borrowings mainly bear interests at fixed interest rates, therefore the Group's exposure to the risk of interest rate fluctuation is very limited. Until now, the Group has not used any financial derivatives to hedge the Company's interest rate risks.

Most of the Group's revenue, cost of sales and services 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 at 30 June 2023, the Group has 3,787 employees (31 December 2022: 3,925 employees). The salary package of Directors and employees is determined by their working experiences, duties and performances. The management will conduct annual review on the salary plan while taking into account Directors' and employees' general performance and market conditions. The Group also makes contributions to 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 Directors and employees are also entitled to share awards under the share award plan (the "**Share Award Plan**") and to the share options under the share option scheme (the "**Share Option Scheme**"). The Company operates the 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 the Directors and employees of the Company and its subsidiaries. The Share Option Scheme became effective on 26 June 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. On 28 February 2019, the

Company adopted the Share Award Plan, pursuant to which the Company may grant existing shares to selected participants (namely all employees, Directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group, but excluding Mr. FENG Changge). The reason for adopting the Share Award Plan is to (i) incentivize, recognize and reward employees, Directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group for their contribution to the Group; (ii) attract and retain personnel to promote the long-term growth and development of the Group; and (iii) align the interests of the grantee with that of the shareholders of the Company (the "**Shareholders**") to promote the long-term financial performance of the Company. As at 1 January 2023, the Group had 42,191,000 outstanding share options under Share Option Scheme, accounting for approximately 2.7% of the shares in issue of the Company on that date. No share options were granted, exercised, cancelled and lapsed during the Reporting Period. Accordingly as at 30 June 2023, the Group still had 42,191,000 outstanding share options under Share Option Scheme, accounting for approximately 2.8% of the shares in issue of the Company on that date. On the other hand, as at 1 January 2023 and 30 June 2023, there were no outstanding options and unvested share awards. As at January 1, 2023, 29,987,500 share awards were available for grant. During the Reporting Period, no share award has been granted, vested, lapsed or cancelled under the Share Award Plan, and accordingly, as at 30 June 2023, 29,987,500 share awards were available for grant. For further details of the Share Award Plan and Share Option Scheme, please refer to the interim report for the six months ended 30 June 2023 which will be published in due course. The Group will review its remuneration policies and Directors' and employees' benefits with reference to the market practices and individual performance.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, the Company repurchased a total of 6,007,500 ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$5,787,129.96 (excluding transaction cost). A total of 22,271,500 repurchased shares were cancelled on 2 May 2023 and 7 June 2023 respectively, in which 5,879,500 shares were repurchased during the Reporting Period. Details of the shares repurchased during the Reporting Period are set out as follows:

Month of repurchase	**Number of repurchase of shares**	**Repurchase price per share**		**Aggregate consideration (excluding the transaction costs)**
		Highest	**Lowest**	
		(HK$)	*(HK$)*	*(HK$)*
January 2023	852,500	1.29	1.06	974,940.00
February 2023	407,500	1.18	1.00	431,965.00
March 2023	—	—	—	—
April 2023	3,363,500	1.01	0.84	3,132,820.08
May 2023	1,256,000	0.93	0.88	1,133,195.00
June 2023	128,000	0.91	0.88	114,209.88
Total	6,007,500			5,787,129.96

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 on 30 June 2023 to the date of this announcement, there was no significant event that would have any material impact on the Group.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the date of this announcement, the Group had not entered into any off-balance sheet transactions.

INTERIM DIVIDEND

At the meeting of the Board held on 29 August 2023, the Board resolved not to pay interim dividends to the Shareholders (2022: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency and accountability. For the six months ended 30 June 2023, 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. The Company believes that effective corporate governance is an essential factor to create more values for its Shareholders.

The Group is committed to developing a positive and progressive culture that is built on its culture which focuses on simplicity, efficiency and happiness. More information about its culture is available on the Company's website. The Company believes that such culture can enable the Company to deliver long-term sustainable performance to the Shareholders.

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 2023.

The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are also subject to the Model Code.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Save as disclosed in this announcement, there were no material investments, acquisitions or disposals of subsidiaries, associated companies and joint ventures undertaken by the Group during the Reporting Period.

SUFFICIENCY OF THE PUBLIC FLOAT

Based on the information publicly available to the Company as of the date of this announcement, and to the best knowledge, information and belief of the Directors, the Directors confirm that the Company had maintained a sufficient public float as required under the Listing Rules during the Reporting Period.

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 2023 which are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made. The Audit Committee has no disagreement with the accounting treatment adopted by the Company.

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, 29 August 2023

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