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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 31 DECEMBER 2023**

RESULTS HIGHLIGHTS:

- The revenue for the year ended 31 December 2023 amounted to approximately RMB16,579.2 million, representing an increase of 1.6% from approximately RMB16,321.7 million recorded in the corresponding period in 2022.
- The Group recorded a sales volume of new vehicles of 38,475 units for the year ended 31 December 2023, representing an increase of 8.4% compared to the corresponding period in 2022.
- For the year ended 31 December 2023, the Group's gross profit was approximately RMB964.0 million, representing a decrease of 10.7% as compared to the corresponding period in 2022. In 2023, the gross profit from sales of automobiles and others and from provision of after-sales services was RMB31.4 million and RMB882.6 million, respectively.
- For the year ended 31 December 2023, the Group recorded a loss for the year of RMB241.5 million. Excluding the impact of non-recurring losses, the Group's adjusted profit for the year would be RMB171.6 million.
- Basic and diluted loss per share for the year ended 31 December 2023 were RMB0.17 and RMB0.17, respectively.

ANNUAL RESULTS

The board of directors (the “**Board**”) of China Harmony Auto Holding Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2023 (the “**Reporting Period**”). The consolidated results have been reviewed by the audit committee of the Company. This annual results announcement is prepared on the basis of the audited financial results of the Group for the year ended 31 December 2023 and contains the audited consolidated financial statements of the Group for the year ended 31 December 2023.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

		2023	2022
	Notes	RMB'000	RMB'000
REVENUE	4	16,579,232	16,321,659
Cost of sales and services		<u>(15,615,198)</u>	<u>(15,241,990)</u>
GROSS PROFIT		964,034	1,079,669
Other income and gains, net	5	193,747	(1,232,990)
Selling and distribution expenses		(857,770)	(882,115)
Administrative expenses		<u>(337,641)</u>	<u>(346,872)</u>
OPERATING LOSS		(37,630)	(1,382,308)
Finance costs	6	(132,036)	(121,289)
Share of losses of joint ventures		(5,629)	(1)
Share of losses of associates		<u>(3,084)</u>	<u>(3,687)</u>
LOSS BEFORE TAX		(178,379)	(1,507,285)
Income tax expense	7	<u>(63,145)</u>	<u>(115,519)</u>
LOSS FOR THE YEAR	8	<u><u>(241,524)</u></u>	<u><u>(1,622,804)</u></u>

	<i>Notes</i>	2023 <i>RMB'000</i>	2022 <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		—	(8,604)
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>(27,314)</u>	<u>(22,649)</u>
Other comprehensive loss for the year, net of tax		<u>(27,314)</u>	<u>(31,253)</u>
Total comprehensive loss for the year		<u>(268,838)</u>	<u>(1,654,057)</u>
(Loss)/Profit for the year attributable to:			
Owners of the Company		(252,194)	(1,627,762)
Non-controlling interests		<u>10,670</u>	<u>4,958</u>
		<u>(241,524)</u>	<u>(1,622,804)</u>
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		(279,508)	(1,659,015)
Non-controlling interests		<u>10,670</u>	<u>4,958</u>
		<u>(268,838)</u>	<u>(1,654,057)</u>
Loss per share attributable to owners of the Company			
Basic (RMB)	9	<u>(0.17)</u>	<u>(1.08)</u>
Diluted (RMB)		<u>(0.17)</u>	<u>(1.08)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,858,226	2,964,993
Right-of-use assets		839,112	849,323
Intangible assets		141,603	147,116
Goodwill		149,993	141,791
Prepayments and other assets		142,685	485,205
Finance lease receivables		233,005	178,596
Investments in joint ventures		2,143	7,772
Investments in associates		3	3,087
Investments at fair value through profit or loss		—	—
Equity investment at fair value through other comprehensive income		45,000	—
Deferred tax assets		87,177	82,321
		<hr/>	<hr/>
Total non-current assets		4,498,947	4,860,204
CURRENT ASSETS			
Finance lease receivables		209,774	263,198
Inventories	10	1,479,678	1,540,438
Trade receivables	11	253,424	197,882
Prepayments, other receivables and other assets		2,829,103	2,534,426
Investments at fair value through profit or loss		—	—
Pledged and restricted bank deposits		498,791	220,347
Cash in transit		17,256	24,070
Cash and bank balances		1,048,193	1,161,992
		<hr/>	<hr/>
Total current assets		6,336,219	5,942,353

	<i>Notes</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
CURRENT LIABILITIES			
Bank loans and other borrowings		2,181,545	2,083,023
Trade and bills payables	12	1,029,908	635,135
Other payables and accruals		889,226	918,298
Lease liabilities		125,572	90,510
Income tax payable		81,871	172,561
		<hr/>	<hr/>
Total current liabilities		4,308,122	3,899,527
		<hr/>	<hr/>
NET CURRENT ASSETS		2,028,097	2,042,826
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,527,044	6,903,030
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liabilities		806,261	819,071
Deferred tax liabilities		55,616	57,252
		<hr/>	<hr/>
Total non-current liabilities		861,877	876,323
		<hr/>	<hr/>
NET ASSETS		5,665,167	6,026,707
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital		12,097	12,293
Reserves		5,560,202	5,934,530
		<hr/>	<hr/>
		5,572,299	5,946,823
Non-controlling interests		92,868	79,884
		<hr/>	<hr/>
TOTAL EQUITY		5,665,167	6,026,707
		<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 24 September 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 Third 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 13 June 2013.

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 executive director of the Company, and the controlling shareholder 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 (“**HKICPA**”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange 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 2023. 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 most 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

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
— Revenue from the sale of automobiles and others	14,209,334	14,324,782
— Provision of after-sales services	2,319,816	1,936,818
<i>Revenue from other sources</i>		
— Finance leasing services	50,082	60,059
	<u>16,579,232</u>	<u>16,321,659</u>

Disaggregation of revenue from contracts with customers:

	2023	2022
Type of goods or services	<i>RMB'000</i>	<i>RMB'000</i>
Sale of automobiles and others	14,209,334	14,324,782
Provision of after-sales services	<u>2,319,816</u>	<u>1,936,818</u>
Total revenue from contracts with customers	<u><u>16,529,150</u></u>	<u><u>16,261,600</u></u>

	2023	2022
Timing of revenue recognition	<i>RMB'000</i>	<i>RMB'000</i>
Goods received by the customer at a point in time	14,209,334	14,324,782
Services rendered at a point in time	<u>2,319,816</u>	<u>1,936,818</u>
Total revenue from contracts with customers	<u><u>16,529,150</u></u>	<u><u>16,261,600</u></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:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of automobiles and others	515,643	523,456
Provision of after-sales services	<u>20,764</u>	<u>39,865</u>
	<u><u>536,407</u></u>	<u><u>563,321</u></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

	2023	2022
	RMB'000	RMB'000
Commission income	431,628	412,049
Interest income from advances to 河南和諧汽車維修服務有限公司 (Henan Hexie Automobile Aftersales Services Co., Ltd.*) (the “ Independent Aftersales Company ”)	32,293	32,652
Advertisement support received from motor vehicle manufacturers	23,608	30,473
Interest income from loans to third parties	13,500	15,348
Bank interest income	21,230	23,572
Government grants (<i>note</i>)	5,937	9,920
Rental income	1,930	4,404
Impairment loss on investments at fair value through profit or loss	—	(1,298,515)
Written off of property, plant and equipment	(109,929)	(94,198)
Impairment loss on advances to and interest receivable from Independent Aftersales Company	(218,201)	(354,577)
Impairment loss on loans to third parties	—	(40,296)
Impairment loss on prepayment	(85,000)	—
Gain on disposals of property, plant and equipment	7,271	2,077
Foreign exchange (loss)/gain	(1,254)	3,693
Penalty income	12,336	2,625
Sale of second hand automobiles and others	45,197	32,770
Others	13,201	(14,987)
	<u>193,747</u>	<u>(1,232,990)</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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest on bank loans and other borrowings	84,461	72,480
Leases interests	49,738	51,871
	<u>134,199</u>	<u>124,351</u>
Less: Interest capitalised	(2,163)	(3,062)
	<u><u>132,036</u></u>	<u><u>121,289</u></u>

7. INCOME TAX EXPENSE

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current Mainland China corporate income tax Provision for the year	69,637	123,733
Deferred tax	(6,492)	(8,214)
	<u><u>63,145</u></u>	<u><u>115,519</u></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 2023 and 2022. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2023 as the Group did not generate any assessment profit arising in Hong Kong during the year (2022: 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% (2022: 25%).

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

A reconciliation of the tax expense applicable to loss 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:

	2023	2022
	<i>RMB’000</i>	<i>RMB’000</i>
Loss before tax	<u>(178,379)</u>	<u>(1,507,285)</u>
Tax at the weighted average tax rate	(44,149)	(331,603)
Losses/(Profits) attributable to joint ventures and associates	636	(922)
Income not subject to tax	(16,756)	(9,882)
Tax effect of non-deductible expenses	109,597	379,523
Tax losses and temporary difference not recognised	15,789	80,616
Tax losses utilised from previous periods	<u>(1,972)</u>	<u>(2,213)</u>
Total income tax expenses	<u><u>63,145</u></u>	<u><u>115,519</u></u>

8. LOSS FOR THE YEAR

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

	2023	2022
	RMB'000	RMB'000
Amortisation of intangible assets	6,054	6,455
Auditor's remuneration		
Audit services		
— Current year	5,200	5,300
Non-audit services	200	500
Bank charges	4,763	3,321
Cost of sales and services:		
Cost of sales of automobiles	14,177,934	14,089,921
Cost of aftersales services (<i>note</i>)	1,437,264	1,152,069
	15,615,198	15,241,990
Depreciation charge of property, plant and equipment	224,655	201,377
Written off of property, plant and equipment	109,929	94,198
Depreciation charge of right-of-use assets	121,066	120,661
Impairment loss on investments at fair value through profit or loss	—	1,298,515
Impairment loss on advances to and interest receivable from Independent Aftersales Company	218,201	354,577
Foreign exchange differences, net	1,252	(3,693)
Gain on disposals of property, plant and equipment	(1,283)	(2,077)
Staff costs including directors' emoluments		
— Wages and salaries	382,062	335,917
— Other welfare	64,177	85,985
	446,239	421,902

Note:

The employee benefit expenses of RMB167,761,000 (2022: RMB142,382,000) were included in the cost of after-sales services.

9. LOSS PER SHARE

The calculation of the basic loss per share attributable to ordinary equity holders of the parent is based on the loss 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 loss per share amount is based on the loss 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 (i) 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 as at 31 December 2023 and 2022; and (ii) does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price of shares for the year ended 31 December 2023 and 2022.

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the year attributable to owners of the Company used in the basic loss per share calculation	<u>252,194</u>	<u>1,627,762</u>
Number of shares:		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	<u>1,488,748,157</u>	<u>1,507,944,437</u>

10. INVENTORIES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Automobiles	1,291,892	1,363,572
Spare parts and accessories	187,786	176,866
	<u>1,479,678</u>	<u>1,540,438</u>

At 31 December 2023, certain of the Group's inventories with an aggregate carrying amount of approximately RMB454,519,000 (2022: RMB434,570,000) were pledged as security for the Group's bank loans and other borrowings.

At 31 December 2023, certain of the Group's inventories with an aggregate carrying amount of approximately RMB257,184,000 (2022: RMB206,671,000) were pledged as security for the Group's bills payables.

11. TRADE RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	<u>253,424</u>	<u>197,882</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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 3 months	242,398	191,481
3 months to 6 months	10,231	2,429
7 to 12 months	732	3,972
over 12 months	63	—
	<u>253,424</u>	<u>197,882</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>	3 to 6 months past due <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2023				
Trade receivables				
Weighted average expected loss rate	0%	0%	0%	
Receivable amount	242,398	10,963	63	253,424
Loss allowance	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2022				
Trade receivables				
Weighted average expected loss rate	0%	0%	0%	
Receivable amount	191,481	6,401	—	197,882
Loss allowance	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

12. TRADE AND BILLS PAYABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	156,733	153,107
Bills payable	873,175	482,028
	<u>1,029,908</u>	<u>635,135</u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 3 months	975,265	596,491
3 to 6 months	51,454	16,257
6 to 12 months	2,395	21,429
Over 12 months	794	958
	<u>1,029,908</u>	<u>635,135</u>

The trade and bills payables are non-interest-bearing.

Certain of the Group's bills payables are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB257,184,000 (2022: RMB206,671,000) as at 31 December 2023.

13. DIVIDENDS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Proposed final — Nil (2022: HK\$ 0.066) per ordinary share	<u>—</u>	<u>88,657</u>

The Board may recommend to declare the final dividend for the year ended 31 December 2023 and the Company will make further announcement(s) to keep the shareholders of the Company and potential investors informed of it as and when appropriate (2022: HK\$0.066 per share totalling HK\$100.1 million (equivalent to RMB88.7 million) was paid on 11 August 2023).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

With the gradual receding of the pandemic and the stabilization and improvement in the macro-economy, China's passenger car market showed a gradual improvement in 2023. According to the data released by the China Passenger Cars Association (hereinafter referred to as the "CPCA"), in 2023, the cumulative retail sales of the passenger cars in China were 21.7 million units, representing an increase of 5.6% year on year. Despite the impact of policy switching and price fluctuations at the beginning of 2023, market demand gradually recovered under the impetus of the relevant promotional policies and other factors, achieving a higher cumulative growth in the first half year, maintaining the rising trend in the second half year, and ending the year with another hot market.

According to the CPCA, the luxury car market sales in 2023 reached 3.4 million units, of which the first-tier luxury brands of BMW, Mercedes-Benz and Audi (collectively "BBA") occupied over 70% of the market share. With sales of 824,900 units, BMW (including MINI brands) claimed the best-seller luxury car brand in China again, followed by Mercedes-Benz, completing 765,000 new car deliveries for the year; Audi, which ranked third, delivered more than 729,000 vehicles in China. In terms of growth rates, Audi experienced the strongest growth, with sales increasing by 13.5% year on year in 2023, while those of BMW increased by 4.2% and Mercedes-Benz increased by 1.8%.

In 2023, the cumulative annual domestic retail sales of new energy passenger vehicles ("NEV") in China reached 7.7 million units, an increase of 36.2% year on year. National policy guidance for the automotive industry was issued frequently, aiming to further stabilise and expand automotive consumption. The "100-city linkage" and "Vehicles into more than 1,000 counties and more than 10,000 towns" activities to promote NEV consumption promoted by the Ministry of Commerce, PRC achieved great results, and many cities continued to introduce policies to promote consumption. It is worth noting that China's new energy passenger car exports enjoyed a strong growth in 2023, with cumulative exports reaching 1.0 million units, representing an increase of 72.0% year on year. According to the analysis of the CPCA, the global international market demand exceeds 60 million units. The competitiveness of China's own brands elevated by the quality improvement in fuel vehicles and the leadership in intelligence, coupled with the new opportunities in overseas markets driven by China's leading the international trend of electric vehicles ("EV"), has pushed up the growth of China's exports. In addition, due to the high export unit price and considerable profits, China's own brands gained huge profits through exports, and shared the cost pressure of domestic sales, which in turn drove up the export volume.

Overall, despite the good performance in scale, it still takes time for the resumption of consumer sentiment and price recovery in the market. Remaining cautiously optimistic and adhering to the principle of high inventory turnover, the Group continues to reduce costs and improve profitability and market share through efficient operations, strong cash flows and a solid financial position.

INDUSTRY OUTLOOK

As the impact of the pandemic on the market is fading and the supply chain is generally stabilising, the overall positive trend in the car market will continue in 2024, especially in the NEV market, which is expected to continue to grow strongly. According to the estimates of the CPCA, in 2024, the overall retail sales of passenger vehicles will reach 22.2 million units in 2024, representing a 3% increase from 2023. If exports maintain a strong growth, the overall passenger car sales in a narrow sense will reach 26.5 million units, up by 5% year on year. According to the expert team of the CPCA, they are optimistic about the growth of the NEV market in 2024, expecting wholesale sales of new energy passenger vehicles reaching 11.0 million units, representing a net increase of 2.3 million units, up by 22% year on year, and achieving a penetration rate of 40%.

In 2024, the export markets for domestic new energy vehicles are expected to maintain the growth trend. With the rapid development and technological progress of the domestic NEV industry, the quality and performance of domestic NEV have been continuously upgraded, increasing their competitiveness in the international market. According to the experts of the CPCA, China's auto exports are expected to grow by 20% in 2024, reaching a scale of 6.5 million units. China's domestic NEV brands, such as BYD, have already established sales networks and positive brand images in overseas markets, gradually gaining recognition from international consumers. The efforts of these brands will lead to further expansion of the export scale of domestically produced NEV and realize broader international market development.

CORPORATE OVERVIEW

Overall, the Company achieved a total sales volume of 38,475 units in 2023, representing a year-on-year increase of 8.4%, of which 28,465 units of BMW (including MINI) were delivered throughout the year, representing a year-on-year increase of 6.4%, and 4,266 units of LEXUS were delivered, representing a year-on-year increase of 10.1%. In terms of inventory, the group implemented effective inventory management strategies, ensuring optimal control and adjustments of inventory levels in response to the market changes, and remained dedicated to maintaining a healthy range of inventory turnover days. The Company's annual inventory turnover days increased by 3 days as compared with the previous year, reaching 35 days.

In 2023, the Company expanded its operational network with the addition of two Ferrari stores, Ferrari Zhengzhou and Ferrari Xi'an, and one Lamborghini Tianjin store, further expanding the business footprint of the Group. In addition, the operation of the Ferrari brand achieved a remarkable result, with the Group's three stores, Nanjing Ruijun, Kunming Lejun and Suzhou Yijun, winning a total of six teams and individual awards for the Ferrari brand. The Group's Ferrari team won awards in sales, marketing and after-sales, achieving a "Grand Slam" of awards for the year. At the same time, in the EV segment, the Company has accelerated its overseas expansion strategy since 2023, partnering Chinese NEV brands, such as BYD and GAC AION, to make deployments in Asian countries and regions such as Hong Kong, Thailand, Cambodia, Vietnam and Japan. In 2023, the Group obtained BYD's dealership authorization in Hong Kong and Cambodia, and GAC AION's dealership authorization in Hong Kong and Thailand. In 2023, the Group opened three BYD showrooms in Hong Kong, located in Sha Tin, Sai Kung and Tseung Kwan O, as well as an after-sales center in Yau Tong; three BYD showrooms in Cambodia; and Thailand's first GAC AION car showroom in Bangkok, Thailand.

The Company continued to focus on the development of the used car and EV sectors, with 8,363 units used cars transacted throughout the year, and the trade-in and replacement services were able to achieve an effective balance of costs and benefits at the financial level.

BUSINESS OUTLOOK

Looking forward to 2024, uncertainties such as macroeconomic conditions and geopolitics will continue to pose challenges for the automotive sales industry. However, due to the market consensus that domestic subsidies and favorable economic policies will be rolled out from time to time, as well as positive factors such as adjustments in supply strategies by automobile brand manufacturers, the Group believes that the supply and demand relationship in the domestic passenger car market will improve, creating room for greater profitability for automobile dealers. The Company will continue to focus on its principal business while actively embracing the changes in electrical intelligentization. In particular, the Group will actively promote the Chinese EV brands into overseas markets. In recent years, the strong resilience of China's auto supply chain and the steady improvements in product quality have accelerated the deployment of domestic automakers in overseas markets, and especially under the trend of electrification and intelligentization, China's new-energy vehicles have shown good competitiveness in overseas markets. Under this circumstance, the Group will continue its in-depth cooperation with Chinese brands such as BYD and GAC AION, and cooperate with Chinese new energy automobile brands to tap into the international market.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB16,579.2 million for 2023, representing an increase of 1.6% as compared with RMB16,321.7 million recorded in the corresponding period in 2022.

Revenue from sales of automobiles and others was RMB14,209.3 million, accounting for 85.7% of the total revenue in 2023 and representing a decrease of 0.8% from RMB14,324.8 million recorded in the corresponding period in 2022. Revenue from the provision of after-sales services amounted to RMB2,319.8 million, accounting for 14.0% of the total revenue in 2023 and representing an increase of 19.8% as compared with RMB1,936.8 million in 2022.

Cost of sales and services

The Group's cost of sales and services was RMB15,615.2 million in 2023, representing an increase of 2.5% from RMB15,242.0 million recorded in 2022, which was in line with the overall increase in revenue.

The cost of sales of automobiles and others in 2023 was RMB14,177.9 million, representing an increase of 0.6% from RMB14,089.9 million recorded in the corresponding period in 2022. Cost of after-sales services in 2023 was RMB1,437.3 million, representing an increase of 24.8% from RMB1,152.1 million recorded in the corresponding period in 2022.

Gross profit and gross profit margin

The Group's gross profit in 2023 was RMB964.0 million, representing a decrease of 10.7% from RMB1,079.7 million in 2022.

Due to the impact of weak consumption spending caused by the macro economy and the decline in new vehicle prices in 2023, the gross profit from sales of automobiles and others in 2023 was RMB31.4 million, representing a decrease of 86.6% as compared to RMB234.9 million recorded in the corresponding period in 2022. Gross profit from the provision of after-sales services was RMB882.5 million in 2023, representing an increase of 12.5% from RMB784.7 million recorded in the corresponding period in 2022.

The Group's gross profit margin in 2023 was 5.8%, representing a decrease of 0.8% from 6.6% recorded in the corresponding period in 2022, primarily due to the decline in new vehicle prices. Among them, the gross profit margin of sales of motor vehicles and others was 0.2% in 2023, representing a decrease of 1.4% as compared to the gross profit margin of 1.6% in 2022; and the gross profit margin of provision of after-sales services was 38.0% in 2023, representing a decrease of 2.5% as compared to the gross profit margin of 40.5% in 2022.

Selling and administrative expenses

The Group's selling and administrative expenses in 2023 were RMB1,195.4 million, representing a decrease of 2.7% from RMB1,229.0 million recorded in the corresponding period in 2022.

Other income and gains, net

The Group recorded other income and gains, net of RMB193.7 million (2022: negative other income and gains, net of RMB1,233.0 million), which was mainly attributable to commission income of RMB431.6 million (2022: RMB412.0 million), interest income of RMB67.0 million (2022: RMB71.6 million), sponsorship fees received from automobile manufacturers of RMB23.6 million (2022: RMB30.5 million), and offset by certain non-recurring losses in aggregate of RMB413.1 million resulting from:

- (i) the written off of property, plant and equipment of RMB109.9 million, primarily due to the closure of four stores to optimise the existing sales network, and the relocation of one store to improve operational efficiency;
- (ii) an expected credit loss of approximately RMB218.2 million on the advances to and interest receivable from the Independent Aftersales Company, due to the failure to pay interest on time during the Reporting Period as the Independent Aftersales Company suffered cashflow issues from the impact of the increasingly competitive business environment; and

- (iii) an impairment loss made on a prudent basis on the entire outstanding amount of RMB85.0 million (“**Outstanding Prepayment**”) in the prepayments, other receivables and other assets made to 深圳市富興隆投資有限公司 (Shenzhen Fuxinglong Investment Co. Ltd*) (the “**FXL**”), a provider of corporate management advisory and investment services. The Group has made multiple requests to FXL for the return of the Outstanding Prepayment but has not received a satisfactory response, and subsequently the Group filed lawsuits against FXL on 18 March 2024. For further details, please refer to the announcement dated 21 March 2024.

Finance costs

The Group’s finance costs in 2023 were RMB132.0 million, representing an increase of 8.9% from RMB121.3 million in 2022, which was mainly due to the increase in the average balance of borrowings.

Loss for the year

The Group’s loss for the year was RMB241.5 million. If the effect of the non-recurring loss of RMB413.1 million was excluded (please refer to the paragraph headed “Financial Overview — Other income and gains, net” in this announcement for details), the Group’s adjusted profit for the year would be RMB171.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group’s primary uses of cash are to pay for purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets, and to fund the Group’s working capital and operating expenses. The Group’s liquidity requirements are satisfied primarily through a combination of short-term bank loans and cash flows from operating activities.

As at 31 December 2023, cash and bank balances of the Group totaled RMB1,048.2 million (2022: RMB1,162.0 million).

In 2023, the net cash generated from operating activities was RMB315.5 million, net cash used in investing activities was RMB347.6 million, and net cash used in financing activities was RMB184.1 million.

Considering the Group's existing cash and cash equivalents, net current assets, 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 of 31 December 2023, the Group's net current assets amounted to RMB2,028.1 million, representing a decrease of 0.7% from RMB2,042.8 million as of 31 December 2022, primarily due to the impairment of current assets (please refer to the paragraph headed "Financial Overview — Other income and gains, net" in this announcement for details).

Capital expenditure

The Group's capital expenditure in 2023 amounted to RMB489.8 million (2022: RMB386.4 million), which was mainly used for the purchase of property, plant and equipment in relation to sales outlets.

Contingent liabilities

As at 31 December 2023, save as disclosed, the Company did not have any contingent liabilities and guarantees.

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Inventories decreased by 3.9% from RMB1,540.4 million as at 31 December 2022 to RMB1,479.7 million as at 31 December 2023.

The Group's average inventory turnover days in 2023 were 35 days, representing an increase of 3 days as compared to 32 days in 2022. The increase in inventory turnover days was mainly due to the Group's adjustment and control of inventory level in response to the market changes. The Group's inventory turnover days are still within a sound range.

Bank loans and other borrowings

As at 31 December 2023, the Group had bank loans and other borrowings in the aggregate amount of RMB2,181.5 million, representing a year-on-year increase of 4.7% as compared to RMB2,083.0 million as at 31 December 2022.

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans repayable:		
Within one year	1,428,647	1,436,133
Other borrowings repayable:		
Within one year	752,898	646,890
	<u>2,181,545</u>	<u>2,083,023</u>

As of 31 December 2023, the Group's gearing ratio (calculated as total liabilities divided by total assets) was 47.7%, representing an increase of 3.5% as compared to the 44.2% recorded as of 31 December 2022.

As at 31 December 2023, certain Group's bank loans and other borrowings were secured by mortgages over the Company's assets which include (i) land use rights in the amount of RMB8.8 million; (ii) buildings in the amount of RMB13.4 million; and (iii) inventories in the amount of RMB454.5 million. In addition, certain of the Group's bank loans and other borrowings were guaranteed by certain Directors of the Company, the Group's subsidiaries or legal representatives of certain subsidiaries of the Company as at 31 December 2023.

Interest rate risk and foreign exchange risk

The Group is exposed to the risks arising from the fluctuation of the loan rates. The rising of the loan rates may incur additional borrowing costs of the Group, which may adversely affect the Group's finance costs, profit and financial position. The interest rates of bank loans and overdrafts in the PRC are dependent on the benchmark lending rates published by the People's Bank of China. The Group did not use any financial derivatives instruments to hedge the Company's interest rate risk during the Reporting Period.

The majority of the Group's revenue, cost of sales and services, and expenses are denominated in RMB, which is also the functional currency; therefore, the Group does not think that it is exposed to any major direct foreign exchange risks on the operating business. As part of the Group's cash deposits and part of the Group's bank borrowings are denominated in HKD or USD, there may be potential exchange differences in the Group's financial statements due to fluctuations in foreign exchange rates. The Group did not adopt any financial derivative instruments to hedge exchange rate risks during the Reporting Period.

Employees and remuneration policies

As at 31 December 2023, the Group had a total of 3,642 employees (2022: 3,925 employees). Employees' remuneration packages are determined based on their work experience, job responsibilities and performance. The management will conduct an annual review of the salary plan while taking into account employees' general performance and market. The Group also participates in the social insurance scheme in Mainland China and the mandatory provident fund scheme in the Hong Kong Special Administrative Region of the PRC.

Relevant employee costs were approximately RMB446.2 million in 2023, as compared to employee costs of approximately RMB421.9 million in 2022. The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the 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 26 June 2015, unless otherwise canceled or amended, will remain in force for ten years from that date. The remaining life of the Share Option Scheme is approximately one year and three months. 50% of these share options were vested on 16 February 2020 and 50% were vested on 16 February 2021. As at 1 January 2023, the Company had 42,191,000 share options outstanding under the Share Option Scheme, which represented approximately 2.7% of the Company's shares in issue. During the year ended 31 December 2023, no share option was granted, exercised and lapsed under the Share Option Scheme. As at 31 December 2023, the Company had 42,191,000 share options outstanding under the Share Option Scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

On 28 February 2019, the Company adopted a share award scheme (the “**Share Award Scheme**”) under which the Company may grant existing Shares to selected participants, being all employees, directors (whether executive or non-executive, but excluding independent non-executive directors) and officers of the Group but excluding Mr. Feng Change. The Share Award Scheme was adopted for the purpose of (i) motivating, recognizing and rewarding the contributions of the employees, directors (executive or non-executive directors but excluding independent non-executive directors) and officers of the Group; (ii) attracting and retaining talent for the long-term growth and development of the Group; and (iii) aligning the interests of the grantees of the Company with that of the Shareholders to enhance the long-term financial performance of the Company. No new Shares will be granted under the Share Award Plan. Subject to early termination by the Board, the Share Award Plan shall be valid and effective from the date of adoption of the Share Award Plan, being 28 February 2019, and ending on 26 June 2025 (both days inclusive). The remaining life of the Share Award Scheme is one year and three months. The maximum aggregate number of Shares to be acquired by the Trustee under the Share Award Plan is 60,000,000 Shares, representing 3.94% of the Shares in issue (i.e. 1,524,725,177) during the 31 December 2023. 30,000,000 shares were granted and vested under the Share Award Scheme. As at 31 December 2023, the Trustee appointed by the Company for the Share Award Scheme has purchased 59,987,500 Shares under the Share Award Scheme since its adoption. During the Reporting Period, no shares were granted, vested, lapsed and canceled under the Share Award Scheme. Details of the Share Award Scheme are set out in the announcement of the Company dated 2 April 2019.

For further details of the Share Option Scheme and the Share Award Scheme, please refer to the 2023 annual report of the Company to be published in due course. The Company will regularly review its remuneration policy and employee benefits with reference to market practice and individual performance.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2023, the Company repurchased a total of 7,340,000 of ordinary shares of HK\$0.01 each on the Stock Exchange for a total consideration of approximately HK\$6,821,944.79 (excluding transaction cost). A total of 22,271,500 repurchased shares were cancelled on 2 May 2023 and 7 June 2023 respectively. 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 transaction cost) (HK\$)
		Highest (HK\$)	Lowest (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
June 2023	128,000	0.91	0.88	114,209.88
July 2023	1,203,500	0.83	0.73	953,785.02
August 2023	—	—	—	—
September 2023	129,000	0.65	0.62	81,029.81
October 2023	—	—	—	—
November 2023	—	—	—	—
December 2023	—	—	—	—
Total	<u>7,340,000</u>			<u>6,821,944.79</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 for the year ended 31 December 2023.

EVENTS AFTER THE REPORTING PERIOD

As at the end of the Reporting Period and up to the date of this announcement, there was no significant event that had any significant impact on the Group.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

FINAL DIVIDEND

The Board may recommend declaring the final dividend for the year ended 31 December 2023 and the Company will make further announcement(s) to keep the shareholders of the Company and potential investors informed of it as and when appropriate (2022: HK\$0.066 per share).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended 31 December 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 C1 (formerly 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 C3 (formerly Appendix 10) to the Listing Rules as its code of conduct regarding directors’ securities transactions. All Directors confirmed that, following a specific enquiry by the Company, that they have complied with the Model Code for the year ended 31 December 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 was no significant investment, acquisition or disposal of subsidiaries, associates and joint ventures by the Group during the Reporting Period.

SUFFICIENCY OF THE PUBLIC FLOAT

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

2024 ANNUAL GENERAL MEETING (“2024 AGM”)

The 2024 AGM will be held on Tuesday, 18 June 2024. A notice convening the 2024 AGM will be published and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2024 AGM

For determining the entitlement to attend and vote at the 2024 AGM, the register of members of the Company will be closed from Thursday, 13 June 2024 to Tuesday, 18 June 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify as members entitled to attend and vote at the 2024 AGM, investors should lodge all transfers of shares accompanied by the relevant share certificates and transfer forms with the Company’s branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 12 June 2024.

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 31 December 2023 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. The work performed by ZHONGHUI ANDA CPA LIMITED in this respect did not constitute an assurance engagement and consequently no opinion and assurance conclusion 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 31 December 2023.

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
28 March 2024

As of the date of this announcement, the executive directors of the Company are Mr. Feng Changge (Chairman), 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, Mr. Chan Ying Lung and Mr. Sung Ka Woon.

* *For identification purpose only*