



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: 3836

2020 INTERIM REPORT



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Corporate Information

Board of Directors

Executive Directors

Mr. FENG Changge (*Chairman*)
Mr. LIU Fenglei (*President*)
Ms. MA Lintao (*Vice President*)
Ms. FENG Guo (*Vice President*)
Mr. HAN Yang (*Vice President*)

Independent Non-executive Directors

Mr. WANG Nengguang
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung (*appointed on March 27, 2020*)
Mr. LIU Zhangmin (*resigned on March 27, 2020*)
Mr. XUE Guoping (*resigned on March 27, 2020*)

Audit Committee

Mr. WANG Nengguang (*Chairman*)
Mr. LAU Kwok Fan (*appointed on March 27, 2020*)
Mr. CHAN Ying Lung (*appointed on March 27, 2020*)
Mr. LIU Zhangmin (*resigned on March 27, 2020*)
Mr. XUE Guoping (*resigned on March 27, 2020*)

Remuneration Committee

Mr. CHAN Ying Lung (*Chairman*) (*appointed on March 27, 2020*)
Mr. LIU Fenglei
Mr. LAU Kwok Fan (*appointed on March 27, 2020*)
Mr. XUE Guoping (*Chairman*) (*resigned on March 27, 2020*)
Mr. LIU Zhangmin (*resigned on March 27, 2020*)

Nomination Committee

Mr. FENG Changge (*Chairman*)
Mr. WANG Nengguang
Mr. CHAN Ying Lung (*appointed on March 27, 2020*)
Mr. XUE Guoping (*resigned on March 27, 2020*)

Company Secretary

Ms. WONG Wai Yee, Ella

Authorized Representatives

Mr. LIU Fenglei
Ms. WONG Wai Yee, Ella

Legal Adviser

Morrison & Foerster
33/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Auditors

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

Principal Banks

China CITIC Bank, Zhengzhou Branch
Shanghai Pudong Development Bank, Zhengzhou Branch
China Merchants Bank, Zhengzhou Branch
The Bank of East Asia, Zhengzhou Branch
Bank of Communications, Zhengzhou Branch

Corporate Information

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business and Headquarter in the PRC

15A, Tower A, World Trade Center Building
Shangwunehuan Road
CBD Zhengdong New District
Zhengzhou, Henan Province
PRC

Principal Place of Business in Hong Kong

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Cayman Islands Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Share Registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Company's website

www.hexieauto.com

Stock Code

3836

Management Discussion and Analysis

INDUSTRY OVERVIEW

The sudden outbreak of the COVID-19 pandemic in 2020 posed severe challenges to the domestic and global economy and brought unprecedented impact to the automobile market. China's GDP growth dropped to -1.6% in the six months ended June 30, 2020, according to the National Bureau of Statistics. Among them, the economic growth in the second quarter turned from negative to positive, with a year-on-year growth of 3.2%, up 10 percentage points from the first quarter. China's passenger car market saw retail sales of 7.7 million units in the first half of the year, a decrease of 22.5% year-on-year, according to The China Passenger Car Association (CPCA). With the pandemic gradually under control, the luxury car market has been the first to usher in a V-shaped reversal. With the exception of February, when the luxury car market declined due to the pandemic, for the remainder of the first half of the year the luxury car market has achieved growth against the trend. Data shows that luxury brands have achieved continuous month-on-month growth since March, and the retail sales of luxury cars increased by 16% year-on-year in April, 28% year-on-year in May, and 27% year-on-year in June, reaching a record high of 14.8% market share. Of the luxury, joint venture and independent sectors, only the luxury sector returned to positive year-on-year growth in the first half of the year, with retail sales of 1.05 million units, an increase of 1% year on year, while joint venture and independent brands dropped by 22% and 30% respectively.

According to a report by the China Automobile Dealers Association (CADA), consumers have become more willing to spend on private cars since the end of February this year, with 60% of the consumers surveyed saying they will buy a car within three months. In May, the consumer's willingness to buy a car tripled from that of the same period last year. Safety, quality and cost performance have become the most important factors for the consideration of prospective car buyers in recent years, and more and more consumers prefer the luxury brand vehicles. The pandemic has caused the luxury car consumers to pay more attention to health and quality of life, thus stimulating their demand for luxury cars. Many luxury car brands are also extending their product lines. Major luxury brands have successively launched a number of entry-level models with a price of around RMB200 thousand. In addition, the penetration rate of auto financing loans is getting higher and higher, which significantly lowers the threshold for luxury car purchase, and drives the increase of the share of luxury cars in the passenger car market. Despite the continuous decline of passenger car sales in China in these two years, German and Japanese car companies have increased their sales, and their market share continues to rise. For the six months ended June 30, 2020, sales of BMW brands (including MINI) in China reached 329 thousand units, a decrease of 5.8% year-on-year, while the sales of BMW brands increased by 17.1% year-on-year in the second quarter. BMW has adjusted its products and improved its sales quality in the past year, and brand discounts have rebounded greatly. It is believed that BMW brand will usher in the best period in the near future. The Lexus brand was one of the few brands to show positive growth in the first half of the year, with national sales of 97 thousand units in the first half, with an increase of 4.8% year on year, through effective price and order controls.

Management Discussion and Analysis

The automobile industry is a pillar industry of the national economy. Stabilizing and expanding automobile consumption is the top priority to boost consumption. With the help of central and local policies, the auto market hit by the pandemic has recovered rapidly. Ministries and commissions of the Central Government have successively issued favorable policies such as VAT exemption for second-hand cars, delay of implementation of the national emission standards VI, and extension of new energy subsidies. Local governments have responded positively. Since 2020, more than 30 provinces and cities have promulgated more than 160 policies to promote automobile consumption, covering consumers, dealers and manufacturers. A number of cities that restricted car purchase have lifted the restrictions on purchase, and increased the release of licenses. The implementation of favorable policies has played a significant role in promoting and supporting the car market and stimulating consumer demand. China is the world's second largest economy, and the world's most populous country with a population of 1.4 billion, with the world's largest middle-income group of more than hundreds of millions of people. According to the National Bureau of Statistics, final consumption expenditure contributed 57.8% of GDP growth in 2019, making consumption the biggest driver of economic growth. This has laid a solid foundation for China's super-large market advantages and potential domestic demand. At present, China's household consumption structure is constantly improving, which has shifted from quantity satisfaction to quality improvement. The consumer demand for durable goods, automobiles and other bulk commodities is growing rapidly.

BUSINESS OVERVIEW

As of the date of this interim report, the Group has a total of 75 dealership outlets in operation covering 36 cities across the country, distributing 14 luxury and ultra-luxury brands, including 10 luxury brands, namely, BMW, MINI, Lexus, Audi, Jaguar, Land Rover, Volvo, Lincoln, Zinoro, and Alfa Romeo, and 4 ultra-luxury brands, including Rolls Royce, Ferrari, Maserati and Bentley.

The Group has been authorized to build 8 dealership outlets covering core luxury and ultra-luxury brands, including BMW, Lexus, Ferrari, Bentley etc.. The new authorized dealership outlets cover provincial capitals such as Nanchang, Wuhan, Nanjing etc., as well as cities with high growth potential, such as Cangzhou and Sanmenxia. The strategic brand and geographic deployment can, on one hand, further consolidate the Group's leading position in the central and western regions, and on the other hand improve its visibility and penetration throughout the nation.

Management Discussion and Analysis

Affected by the spread of the pandemic, the Group's new car sales and after-sales revenue were greatly impacted in the first quarter, recording a year-on-year decline of 26.7% and 32.2% respectively. The resumption of production and work in central and western regions lagged behind that in eastern and southern China. However, thanks to the management team's rapid response ability and correct industry judgment after the outbreak, it has become one of the few dealer groups that can quickly recover from the impact. The new car sales business was the first to recover, with quarter-on-quarter growth of more than 10% in the second quarter. For the six months ended June 30, 2020, new car sales reached 14,613 units, a decrease of 5.5% from a year earlier. Sales of BMW (including MINI), the group's largest brand by distribution, decreased by 5.4%, which is in-line with the national average, while Lexus, the second-largest brand, rose by 7.4%. Ultra-luxury brands also performed well, with Bentley sales up 150% and Rolls-Royce sales increased by 21% year on year.

In the first half of this year, the Group continued to expand and optimize our brand portfolio, and actively applied for more dealership outlet authorizations and expanded the dealership network. We continued to explore the luxury car markets in China by deploying more flagship brands, including Lexus, BMW, Bentley, Ferrari and other leading brands. With regard to after-sales business, we made great efforts to improve the quantity and satisfaction of customers, and improved the efficiency and quality of management and operation of the Group. At the same time, we actively strengthened the IT construction, emphasized the data management, so as to intricately improve the overall management ability, reduce the management cost and control the operation risk. Facing the challenges and opportunities brought by the transformation and upgrade of China's automobile market, the Group believes that with years of in-depth development of luxury brands and regional advantages, the dealership business will continue to grow steadily in the future.

Future Outlook and Development Strategies

Thanks to China's rapid economic growth and the booming overall car market, the luxury car market in China has grown rapidly over the past 11 years, with an average compound annual growth rate of 22%, far outpacing the average compound annual growth rate of 8% for the overall passenger car market. This year, the market has quickly recovered to positive growth after the outbreak of the pandemic, which shows that the fundamentals of China's luxury car market have not changed and the market still has rigid demand. After the pandemic, the global economic landscape will undergo another major transformation. China was the first to be hit by the pandemic, the first to control the pandemic, and the first to resume work and production. China's economic recovery and foundation reconstruction are of symbolic significance for the global economy. Although there are still many uncertainties in the second half of the year, under the combined effect of favorable macro policies and active adjustment of market players, the repressed demand for consumption and investment will be fully released, and the economic growth is expected to rebound.

Management Discussion and Analysis

China has surpassed the United States to become the world's largest luxury car market, in terms of the annual sales of luxury cars, while the penetration rates of luxury cars vary by province. The penetration rates in Shanghai, Beijing, Jiangsu and Zhejiang have exceeded 20%, reaching the level of overseas developed countries, but other provinces such as Anhui, Jiangxi and Henan are still below the national average. Therefore, we believe that China's luxury car market still has room to improve. With the sustained economic development of all provinces and cities and the improvement of per capita income, the penetration rate of luxury cars in China will further increase in the next decade. The overall purchasing power of Chinese consumers continues to increase thanks to the domestic economic development. The extension of product line and decline of price of luxury car brands, the appearance of diversified auto financing products as well as other factors have further lowered the threshold of luxury car purchase and expanded the target audience of luxury car. With the gradual increase of car ownership scale, people's demand for vehicles has also changed. The demand for passenger cars has gradually shifted from the demand for first purchase to the demand for replacement purchase and additional purchase. The demand for replacement cars has gradually become the main factor driving the sales of cars.

The huge car ownership in China has produced a huge demand for maintenance, car detailing, car insurance, automotive supplies and other diversified services. With the slowdown of automobile sales growth, in-depth development and mining of the industrial value of the aftermarket has become the focus of the development of the automobile market, which is conducive to the more differentiated development of the industry. In the future, with the steady expansion of car ownership and the increase of vehicle age in China, consumers will have a stronger demand for maintenance and repair, and the scale of automobile aftermarket industry will further grow. With the domestic automobile market gradually becoming mature, the rapid development period of automobile aftermarket in China is approaching.

This year is full of challenges and opportunities for enterprises. In the post-pandemic period, the market competition will be more intense, and the survival of the fittest in the future automobile market is inevitable. The Group will assess the situation, choose the approach most appropriate for its survival and development according to its own characteristics, and actively and continuously implement the following development strategies, so as to further enhance the income scale and profitability and create greater value for shareholders:

- Focus on main business, and focus on competitive brands
- Actively develop dealership business through self-construction and mergers and acquisitions to promote internal growth and new store profitability
- Increase customer stickiness and dependence, improve automobile aftermarket output value
- Enhance fine management, strengthen the internal operation ability, and pursue efficient and high-quality business

Management Discussion and Analysis

FINANCIAL OVERVIEW

Revenue

Due to the impact of the pandemic in China during upon us in the first quarter of this year, the Group registered a revenue of RMB5,754.7 million in the first half of 2020, representing a slight decrease of 2.3% compared with that of RMB5,891.5 million for last year. Among which, the sales revenue of new vehicles saw a mere drop of 0.5% from RMB5,048.8 million to RMB5,021.4 million, accounting for 87.3% of the total revenue of the first half of 2020. While the after-sales services and brand business only recorded a revenue of RMB717.9 million, representing a decline of 13.6% compared with that for the same period in 2019 and accounting for 12.5% of the total revenue of the first half of 2020.

As for luxury car brands, the sales revenue of Lexus and BMW (including MINI) respectively recorded an increase of 6.5% and 3.0%, jointly accounting for 86.3% of the Group's total revenue from new cars. In respect of ultra-luxury brands, Rolls-Royce and Bentley respectively registered an increase of 15.9% and 157.3% in sales of new cars sales.

Cost of sales and services

The cost of sales and services of the Group saw a slight decrease from RMB5,313.9 million of the first half of 2019 to RMB5,234.9 million, or 1.5%, of the same period of 2020. The cost of new car sales and after-sale services were respectively RMB4,835.7 million and RMB399.2 million, representing a decrease of 0.3% and 14.0%.

Gross profit and Gross profit margin

The gross profit of the Group decreased by 10.0% from RMB577.6 million in the first half of 2019 to RMB519.8 million in the same period of 2020. The gross profit of selling new vehicles dropped by 6.8% from RMB199.3 million in the first half of 2019 to RMB185.7 million in the same period of 2020. The gross profit of after-sale services and brand businesses decreased by 13.1% from RMB366.7 million in the first half of 2019 to RMB318.7 million in the same period of 2020.

The Group's gross profit margin in the first half of 2020 stood at 9.0%, representing a decrease of 0.8% compared with 9.8% in 2019, during which, the gross profit of selling new vehicles in the first half of 2020 was 3.7%, representing a decrease of 0.2% compared with that of 2019. The gross profit of after-sale services in the first half of 2020 was 44.4%, representing an increase of 0.3% compared with that of 2019.

Management Discussion and Analysis

Administrative expense

The Group's administrative expense in the first half of 2020 was RMB75.8 million, which is basically similar to that of 2019.

Other income and gains, net

In the first half of 2020, the other net income and gains of the Group was RMB206.6 million, which registered a slight decrease of 5.9% compared with that of the last year after deducting the numbers from the independent after-sales company. Other income and gains mainly came from the commission (of providing services by being an insurance agent and the agent offering car-related financial services), the gain from trading second-hand vehicles, the advertisement revenue from car manufacturers and interest income.

Finance costs

The Group's finance costs in the first half of 2020 is RMB57.1 million, representing an increase by 2.8% compared to that of 2019, RMB55.5 million. The increase is attributed to the increase of the average balance of borrowings in the reporting period. With the growing of the Group's business and the number of 4S outlets, the Group also sees an increase of its finance costs used to maintain regular operation.

Profit attributable to the owners of the parent

In the first half of 2020, the profit attributable to the owners of the parent is RMB234.8 million, representing a decrease of 18.0% compared with that of 2019.

Liquidity and capital resources

Cash flow

The Group mainly uses cash to purchase passenger cars and supporting components, set up and acquire new distribution outlets and support their daily operation. Short-term bank loans and the cash generated from operation activities are the cash sources of the Group. In the future, the Group will also, if it has opportunities, raise funds in the capital market to provide liquidity for potential major acquisitions.

Management Discussion and Analysis

As at June 30, 2020, the total cash and deposits of the Group is RMB1,801.6 million. In the first half of 2020, the net cash generated from operation activities of the Group is RMB729.1 million; the net cash used for investment activities is RMB118.5 million; the net cash used for financing activities is RMB173.6 million.

Net current assets

As at June 30, 2020, the net current assets of the Group is RMB2,043.6 million, representing an increase of 1.4% from RMB2,014.7 million as at December 31, 2019.

Capital expenditure

The Group's capital expenditure comprises of its expenses on plant, equipment, property and the assets with using rights. In the first half of 2020, the Group's capital expenditure (mainly used as the expenses and prepayments to purchase the property, plant and equipment for setting up new outlets) stands at RMB166.3 million (the same period of 2019: RMB146.3 million). The reason of the increase is that we have acquired four dealers and paid for the project expenses for new authorized stores under construction.

Inventory

The inventories of the Group are mainly passenger cars and supporting components. During the period, the inventories decreased by RMB236.8 million from RMB1,261.9 million as at December 31, 2019 to RMB1,025.1 million as at June 30, 2020. The Group recorded the decrease of the inventories, and that's mainly because all of the outlets have strengthened the management on their orders in relation to new passenger cars and after-service products; the headquarter of the Group have put in place a real-time system for the inventories to provide early warning, supervise and manage the inventories and resources among distribution outlets were re-distributed and adjusted so as to maintain a rational level of the inventory balance.

The Group's average turnover days for inventories in the first half of 2020 is 39.9 days, while the figure in the first half of 2019 is 36.3 days. The Group registered an increase of the turnover days for mainly two reasons. The first is that the inventory at the end of June 2019 is relatively low due to the upgrade from the No. 5 Emission Standard to No. 6 Emission Standard in the first half of 2019. The second reason is that the Group has intentionally stored more imported vehicles from Europe to provide a stable supply for the sales of such cars in the second half of 2020, in response to the risk that a second wave of the pandemic may occur in Europe.

Management Discussion and Analysis

Bank loans and other borrowings

As at June 30, 2020, the total bank loans and other borrowings of the Group is RMB2,408.1 million, representing a decrease of 3.4% compared to the figure on December 31, 2019, RMB2,493.7 million.

	June 30, 2020 <i>RMB'000</i>	December 31, 2019 <i>RMB'000</i>
Bank loans:		
should be repaid within one year	1,823,785	1,486,503
Other borrowings:		
should be repaid within one year	584,318	1,007,196
Total	2,408,103	2,493,699

As at June 30, 2020, the gearing ratio of the Group (the result of total liabilities divided by total assets) is 36.5%, representing an increase of 0.6 percentage point than that at December 31, 2019, 35.9%.

Contingent liabilities

As at June 30, 2020, the Company has no material contingent liabilities or guarantees.

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. If this is the case, then it may impose adverse effect upon the Group's finance costs, profit and financial position. The loan rates and overdraft rates of domestic banks are determined by the benchmark lending rates published by the People's Bank of China. As until now, the Group has not used any financial derivatives to hedge the Company's interest rate risks.

All of the Group's revenue, cost of sales and principal operating expenses are denominated in Renminbi which is also the currency the Group uses to keep its accounting records. Considering its operating businesses, the Group does not think that it is exposed to any major direct foreign exchange risks, and it has not adopted any financial derivative instruments to hedge such risks. Part of the Group's cash deposits and bank borrowings are denominated in Hong Kong dollars, which makes it subject to potential conversion differences resulted from the fluctuation of foreign exchange rates on financial statements.

Management Discussion and Analysis

Employees and remuneration policies

As at June 30, 2020, the Group has 3,839 employees (the figure at December 31, 2019 is 3,589). The salary package of employees are determined by their working experiences, duties and performances. The management will conduct annual review on the salary plan while taking into account employees' general performance and market. The Group also makes contributions to employees' social security plans in China and to the mandatory provident fund scheme in the Hong Kong Special Administrative Region of the People's Republic of China.

In addition, eligible employees are also entitled to share awards under the share award scheme and to the share options under the share option scheme. During the period from January to June of 2020, the global economy is facing a severe challenge, and most of the companies have to take the pressure. In order to safeguard the benefits of all shareholders, the Group has not granted shares awards in accordance with any share award scheme. As at June 30, 2020, the Group has 50,231,000 outstanding share options under share option scheme, accounting for approximately 3.2% of the shares the Company issued on that date. The Group will review its remuneration policies and employees' benefits by referring to the market practices and individual employee's personal performance on a regular basis.

Events after the reporting period

As from the end of the reporting period of June 30, 2020 to the date of this interim report, there was no significant event that would have any material impact on the Group.

Material acquisitions, disposals and significant investments

Save as disclosed in this interim report, during the six months ended June 30, 2020, the Group had not made any material acquisitions and disposal of subsidiaries and associated companies. Save as disclosed in this interim report, as at June 30, 2020, the Group did not hold any other significant investments.

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2020, the interests and short positions of the directors (the “**Directors**”) or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) were as follows:

Name	Position	Ordinary Shares			Underlying Shares under Share Options		Approximate % of Shareholding Interest
		Personal Interests ⁽⁵⁾	Family Interests ⁽⁵⁾	Other interests	Personal Interests	Total Interests	
Mr. FENG Changge	Director	800,000 (L)	—	696,059,160 (L) ⁽¹⁾	2,500,000 ⁽³⁾⁽⁴⁾	699,359,160 (L)	44.41%
Ms. MA Lintao	Director	—	699,359,160 (L) ⁽²⁾	—	—	699,359,160 (L)	44.41%
Mr. LIU Fenglei	Director	778,587 (L)	—	—	2,500,000 ⁽³⁾⁽⁴⁾	3,278,587 (L)	0.21%
Ms. FENG Guo	Director	360,285 (L)	—	—	400,000 ⁽³⁾⁽⁴⁾	760,285 (L)	0.05%
Mr. HAN Yang	Director	390,000 (L)	—	—	800,000 ⁽³⁾⁽⁴⁾	1,190,000 (L)	0.08%
Mr. WANG Nengguang	Director	40,000(L)	—	—	—	40,000 (L)	0.00%

Notes:

- (1) These 696,059,160 shares in the Company are held by Eagle Seeker Company Limited (“**Eagle Seeker**”). Mr. FENG Changge is deemed to be interested in the said 696,059,160 shares by virtue of Eagle Seeker being held indirectly by Cititrust Private Trust (Cayman) Limited through Eagle Pioneer Company Limited, whereas Mr. Feng Changge is the founder of the trust.
- (2) Ms. MA Lintao is Mr. FENG Changge’s spouse and is therefore deemed to be interested in all the shares of the Company in which Mr. FENG Changge is interested in.
- (3) These interests represent options to subscribe for Shares in accordance with the Share Option Scheme granted to the relevant Directors. For further details, please refer to the section headed “Share Option Scheme”.
- (4) These options were granted by the Company in May 2017 and accepted by the relevant grantees in May 2017.
- (5) “Personal Interests” represents interests directly beneficially owned.

Corporate Governance and Other Information

- (6) “Family Interests” represents interests of spouse or child under 18.
- (7) The letter “L” denotes the long position in the shares of the Company.

Save as disclosed above, as at June 30, 2020, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on June 26, 2015 (“**Share Option Scheme**”), which is made pursuant to Chapter 17 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange, in relation to grant of share options to certain employees of the Company or its subsidiaries to subscribe for shares (the “**Shares**”) of HK\$0.01 each of the Company, for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group.

On May 9, 2017, the Board resolved to grant up to 70,000,000 new share options to the then existing grantees and certain new grantees (collectively, the “**Grantees**”, each a “**Grantee**”) to replace the outstanding options granted on June 29, 2015 and July 2, 2015 respectively (“**Outstanding Options**”), subject to the acceptance of each of the then existing grantees. No compensation shall be payable to them for cancellation of the Outstanding Options. New grantees are mainly senior management of the subsidiaries of the Company and general managers of its outlets.

On December 17, 2019, the Company offered to grant share options (the “**2019 Share Options**”) to certain eligible employees of the Group (the “**2019 Grantees**”) under the Share Option Scheme, entitling them to subscribe for a total of 20,000,000 ordinary shares of HK\$0.01 each of the Company. The grant of the Share Options will be subject to the acceptance of the 2019 Grantees. Each 2019 Grantee is not a Director, chief executive or substantial shareholder of the Company or an associate (as defined under the Listing Rules) of any of them.

Summary of each of the Share Option Scheme and the new Share Options has been set out in note 22 to the financial statement.

Corporate Governance and Other Information

Details of the movements of the share options granted to subscribe for ordinary shares by the Directors, former directors and other eligible employees of the Company pursuant to the Share Option Scheme during the six months ended June 30, 2020 were as follows:

Name of Grantees	Date granted	Exercise price per Share	Number of Share Options				Outstanding as at June 30, 2020
			Outstanding as at January 1, 2020	Granted during the period	Exercised during the period	Lapsed/cancelled during the period	
<i>Directors</i>							
Mr. FENG Changge — Executive Director and Chairman of the Board	May 9, 2017	HK\$3.00	5,000,000	—	—	2,500,000 ⁽³⁾	2,500,000 ⁽¹⁾
Mr. LIU Fenglei — Executive Director and President	May 9, 2017	HK\$3.00	5,000,000	—	—	2,500,000 ⁽³⁾	2,500,000 ⁽¹⁾
Ms. FENG Guo — Executive Director and Vice President	May 9, 2017	HK\$3.00	800,000	—	—	400,000 ⁽³⁾	400,000 ⁽¹⁾
Mr. HAN Yang — Executive Director	May 9, 2017	HK\$3.00	1,600,000	—	—	800,000 ⁽³⁾	800,000 ⁽¹⁾
<i>Former Directors</i>							
Mr. YANG Lei — Former Executive Director, Chief Operating Officer and Vice President	May 9, 2017	HK\$3.00	2,250,000	—	—	1,125,000 ⁽³⁾	1,125,000 ⁽¹⁾
Mr. QIAN Yewen — Former Executive Director and Chief Financial Officer	May 9, 2017	HK\$3.00	6,000,000	—	—	3,000,000 ⁽³⁾	3,000,000 ⁽¹⁾
Other eligible employees	May 9, 2017	HK\$3.00	41,981,000	—	—	22,075,000 ⁽³⁾	19,906,000 ⁽¹⁾
	December 17, 2019	HK\$4.00	20,000,000	—	—	—	20,000,000 ⁽²⁾
Total			82,631,000	—	—	32,400,000⁽³⁾	50,231,000

Corporate Governance and Other Information

Notes:

- (1) The Share Option period of the 70,000,000 Share Options is valid from May 9, 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) June 28, 2025. All Share options granted on May 9, 2017 vested and became fully exercisable on July 1, 2017. The cessation of directorships of the former Directors Mr. QIAN Yewen and Mr. YANG Lei did not involve the grounds of termination as specified in the above (i), and their Share Options remained valid as at June 30, 2020.
- (2) The Share Option period of the 15,000,000 Share Options is valid from December 17, 2019 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee of the Group, and (ii) December 17, 2025. The vesting period for these share options is 50% on February 16, 2020 and 50% on February 16, 2021.
- (3) A total of 32,400,000 Share Options at the exercise price of HK\$3.00 were cancelled on April 7, 2020.

SHARE AWARD PLAN

On February 28, 2019, the Company adopted a share award plan (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 Award Holders with that of the Shareholders to promote the long-term financial performance of the Company. No new Shares will be granted under the Share Award Plan. Details of the Share Award Plan are set out in the Company’s announcement dated April 2, 2019.

As at June 30, 2020, the trustee appointed by the Company for the purpose of the Share Award Plan purchased a total of 59,987,500 Shares according to the Share Award Plan.

As at June 30, 2020, 30,000,000 Shares has been granted under the Share Award Plan.

Corporate Governance and Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2020, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as follows:

Name	Capacity/Nature of Interest	Number of Shares Directly or Indirectly Held ⁽⁴⁾	Approximate % of Shareholding Interest
Eagle Seeker	Beneficial owner	696,059,160 (L)	44.20%
Eagle Pioneer Company Limited ⁽¹⁾	Interest of controlled corporation	696,059,160 (L)	44.20%
Cititrust Private Trust (Cayman) Limited ⁽²⁾	Trustee	696,059,160 (L)	44.20%
Foxconn (Far East) Limited ⁽³⁾	Beneficial owner	128,734,000 (L)	8.18%
Hon Hai Precision Industry Co. Ltd ⁽³⁾	Interest of controlled corporation	128,734,000 (L)	8.18%

Notes:

- (1) Eagle Seeker is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the 696,059,160 Shares held by Eagle Seeker Company Limited.
- (2) Eagle Pioneer Company Limited is wholly owned by Cititrust Private Trust (Cayman) Limited. Accordingly, Cititrust Private Trust (Cayman) Limited is deemed to have interest in the 696,059,160 Shares held by Eagle Seeker (the controlling Shareholder of the Company), indirectly via Eagle Pioneer Company Limited. Mr. Feng Changege, Executive Director and Chairman of the Company, is the founder of the trust of Cititrust Private Trust (Cayman) Limited.
- (3) Foxconn (Far East) Limited ("**Foxconn**") is wholly owned by Hon Hai Precision Industry Co. Ltd. ("**Hon Hai**"), a company listed on the Taiwan Stock Exchange. Accordingly, Hon Hai is deemed to have interest in the 128,734,000 Shares held by Foxconn.
- (4) The letter "L" denotes long position in such Shares.

Save as disclosed above, as at June 30, 2020, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

Corporate Governance and Other Information

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted 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 had complied with the Model Code during the six months ended June 30, 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended June 30, 2020, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in 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.

UPDATE ON DIRECTORS' INFORMATION

Mr. Wang Nengguang, an independent non-executive Director of the Company, ceased as an independent director of Digital China Information Service Company Ltd. (a company listed in Shenzhen Stock Exchange (Stock Code: 000555.SZ)) on 15 May 2020.

Save as disclosed above, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended June 30, 2020.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the requirements of the Listing Rules and the Corporate Governance Code. As at the date of this interim report, 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 June 30, 2020.

Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2020

	NOTES	Six months ended June 30,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	5	5,754,675	5,891,521
Cost of sales		(5,234,899)	(5,313,934)
Gross profit		519,776	577,587
Other income and gains, net	6	206,550	246,136
Selling and distribution expenses		(284,131)	(308,440)
Administrative expenses		(75,753)	(75,121)
Finance costs	7	(57,075)	(55,532)
Share of profits of joint ventures		9	8
Share of losses of associates		(1,736)	(21,059)
Profit before taxation	8	307,640	363,579
Income tax expense	9	(65,388)	(69,621)
Profit for the period		242,252	293,958
Profit for the period, attributable to:			
Owners of the Company		234,786	286,238
Non-controlling interests		7,466	7,720
		242,252	293,958
Earnings per share	11		
— Basic		RMB0.15	RMB0.19
— Diluted		RMB0.15	RMB0.19

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Profit for the period	242,252	293,958
Other comprehensive (expense) income		
Exchange differences on translation of foreign operations	(23,739)	4,741
Total comprehensive income for the period	218,513	298,699
Total comprehensive income for the period attributable to:		
Owners of the Company	211,047	290,979
Non-controlling interests	7,466	7,720
	218,513	298,699

Condensed Consolidated Statement of Financial Position

At June 30, 2020

	NOTES	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		2,777,356	2,691,070
Right-of-use assets		492,044	525,106
Intangible assets		139,461	98,578
Goodwill		141,791	57,911
Prepayment and other assets		634,844	789,142
Finance lease receivables	12	158,792	130,538
Investment in joint ventures		5,629	5,620
Investment in associates		5,608	7,344
Investment at fair value through profit or loss	16	1,389,589	1,389,589
Equity investment at fair value through other comprehensive income	17	118,337	118,337
Deferred tax assets		78,422	61,244
		5,941,873	5,874,479
Current assets			
Finance lease receivables	12	110,705	92,347
Inventories	13	1,025,138	1,261,867
Trade receivables	14	125,236	134,858
Prepayments, other receivables and other assets	15	2,466,835	2,496,613
Investments at fair value through profit or loss	16	88,187	88,187
Pledged and restricted bank deposits		88,865	68,379
Cash in transit		39,591	43,769
Cash and bank balances		1,801,591	1,362,063
		5,746,148	5,548,083

Condensed Consolidated Statement of Financial Position

At June 30, 2020

	NOTES	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Current liabilities			
Bank loans and other borrowings	20	2,408,103	2,493,699
Trade and bill payables	18	222,484	115,539
Other payables and accruals		784,298	675,447
Lease liabilities	19	51,197	30,408
Income tax payable		236,474	218,314
		3,702,556	3,533,407
Net current assets			
		2,043,592	2,014,676
Total assets less current liabilities			
		7,985,465	7,889,155
Capital and reserves			
Share capital	21	12,519	12,519
Reserves		7,359,088	7,257,804
Equity attributable to owners of the Company			
		7,371,607	7,270,323
Non-controlling interests			
		55,470	53,176
Total equity			
		7,427,077	7,323,499
Non-current liabilities			
Lease liabilities	19	491,672	510,009
Deferred tax liabilities		66,716	55,647
		558,388	565,656

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Attributable to owners of the Company											Attributable to non-controlling interests	Total
	Share capital	Shares held under share award plan*	Share premium*	Capital reserve*	Statutory reserve*	Merger reserve*	Fair value change reserve*	Share option reserve*	Exchange fluctuation reserve*	Retained earnings*	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At January 1, 2020	12,519	(85,962)	3,153,040	1,635	271,382	371,200	9,292	75,840	107,293	3,354,084	7,270,323	53,176	7,323,499
Profit for the period	-	-	-	-	-	-	-	-	-	234,786	234,786	7,466	242,252
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(23,739)	-	(23,739)	-	(23,739)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	(23,739)	234,786	211,047	7,466	218,513
Final 2019 declared	-	-	(108,042)	-	-	-	-	-	-	-	(108,042)	-	(108,042)
Acquisition of non-controlling interests	-	-	-	1,672	-	-	-	-	-	-	1,672	(5,172)	(3,500)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	(3,393)	-	-	(3,393)	-	(3,393)
At June 30, 2020 (unaudited)	12,519	(85,962)	3,044,998	3,307	271,382	371,200	9,292	72,447	83,554	3,588,870	7,371,607	55,470	7,427,077

* These reserve accounts comprise the consolidated other reserve of RMB7,359,088,000 (for the six months ended June 30, 2019: RMB6,952,571,000) in the consolidated statement of financial information.

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Attributable to owners of the Company									Attributable to non-controlling interests	Total	
	Share capital	Treasury reserve*	Share premium*	Capital reserve*	Statutory reserve*	Merger reserve*	Share option reserve*	Foreign currency translation reserve*	Retained profits*			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	Sub-total	RMB'000	RMB'000
At January 1, 2019	12,085	—	3,186,337	1,995	238,414	371,200	73,873	112,459	2,859,710	6,856,073	42,885	6,898,958
Profit for the period	—	—	—	—	—	—	—	—	286,238	286,238	7,720	293,958
Exchange differences related to foreign operations	—	—	—	—	—	—	—	4,741	—	4,741	—	4,741
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	4,741	286,238	290,979	7,720	298,699
Final 2018 declared	—	—	(156,079)	—	—	—	—	—	—	(156,079)	—	(156,079)
Shares repurchased	(45)	(17,022)	(15,761)	—	—	—	—	—	—	(32,828)	—	(32,828)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	6,466	—	—	6,466	—	6,466
At June 30, 2019 (unaudited)	12,040	(17,022)	3,014,497	1,995	238,414	371,200	80,339	117,200	3,145,948	6,964,611	50,605	7,015,216

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash generated from operations	777,486	613,368
Income taxes paid	(48,378)	(38,773)
Net cash from operating activities	729,108	574,595
Net cash used in investing activities		
Interest received	22,837	11,331
Purchase of property, plant and equipment	(83,162)	(146,331)
Proceeds on disposal of property, plant and equipment	144,711	53,680
Purchase of intangible assets	(1,171)	(2,679)
Proceeds from disposal of intangible assets	—	7,048
Payments for right-of-use assets	(2,554)	—
Advance made to a third party	(45,275)	—
Advance to an associate	—	(29,700)
Business combination and acquisition of subsidiaries	(153,882)	—
Proceeds from disposal of a financial asset at fair value through profit or loss	—	34,000
	(118,496)	(72,651)
Net cash used in financing activities		
Payment on repurchase of shares	—	(32,828)
New bank borrowings and other borrowings raised	4,507,324	5,606,920
Repayments of bank borrowings and other borrowings	(4,598,831)	(5,783,506)
Interest paid	(40,430)	(55,532)
Repayments of lease liabilities	(38,158)	(26,539)
Acquisition of non-controlling interests	(3,500)	—
	(173,595)	(291,485)
NET INCREASE IN CASH AND CASH EQUIVALENTS	437,017	210,459
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,362,063	948,300
Effect of foreign exchange rate changes	2,511	4,741
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by cash and bank balances	1,801,591	1,163,500

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

1. GENERAL

China Harmony Auto Holding Limited (formerly known as China Harmony New Energy Auto Holding Limited) (the “**Company**”), was incorporated on September 24, 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on June 13, 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 a director of the Company, the “**Controlling Shareholder**”), who is the founder of the trust of Cititrust Private Trust (Cayman) Limited.

The condensed consolidated interim financial information are presented in Renminbi (“**RMB**”), unless otherwise stated.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The condensed consolidated financial statements do not include all the information required for a complete set of Hong Kong Financial Reporting Standards financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at December 31, 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value at the end of reporting period.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2020 are same as those presented the Group’s annual consolidated financial statements for the year ended December 31, 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts of application on Amendments to Hong Kong Accounting Standard 1 (“HKAS”) 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending December 31, 2020.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

4. SEGMENT INFORMATION

The Group has a single operating segment: the sale of automobiles and provision of after-sales services. The operating segment is identified on the basis of internal reports about components of the Group that are regularly reviewed by the Company's Chief Executive Officer, the chief operating decision maker ("CODM"), for the purpose of allocating resources to segments and assessing their performance. No operating segments have been aggregated in arriving at reportable segments of the Group.

5. REVENUE

An analysis of revenue is as follows:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Revenue from the sale of automobiles	5,021,405	5,048,817
Provision of after-sales service and others	717,944	831,087
Revenue from other sources		
Finance leasing services	15,326	11,617
	5,754,675	5,891,521

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

5. REVENUE (CONTINUED)

Disaggregated revenue information

	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Types of goods or services		
Sale of automobiles and others	5,021,405	5,048,817
Provision of after-sales services	717,944	831,087
	5,739,349	5,879,904
Timing of revenue recognition		
Goods received by the customer at a point in time	5,021,405	5,048,817
Services rendered at a point in time	717,944	831,087
	5,739,349	5,879,904

6. OTHER INCOME AND GAINS, NET

	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Commission income	136,757	128,117
Advertisement support received from motor vehicle manufacturer	26,798	19,725
Bank interest income	8,116	11,331
Interest income from loans to an associate	—	22,880
Interest income from loans to third parties	23,872	31,109
Gain on disposal of an associate (<i>Note</i>)	—	26,705
Gain on disposal of an intangible assets	—	2,027
Others	11,007	4,242
	206,550	246,136

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

6. OTHER INCOME AND GAINS, NET (CONTINUED)

Note:

On April 18, 2019, the Group entered into an agreement with an independent third party to dispose of 29% of equity interest in 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**”). The associate provides after-sales services in the PRC.

Upon the completion of the disposal, the Group’s equity interest in the associate was reduced from 48.8% to 19.8% and ceased to be an associate of the Group, and the remaining equity interest was accounted for as an equity investment at fair value through other comprehensive income which is stated as fair value in the consolidated statement of financial position.

7. FINANCE COSTS

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans and other loans	40,430	40,969
Interest on lease liabilities	16,645	14,563
	57,075	55,532

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

8. PROFIT BEFORE TAXATION

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation for property, plant and equipment	86,070	78,717
Depreciation for right-of-use assets	33,062	28,024
Amortization for intangible assets	2,408	2,242
Loss on disposal of property, plant and equipment	3,937	7,368
Advertisement and business promotion expenses	18,810	27,437
Bank charges	1,191	2,093
Minimum lease payments under operating leases	—	7,613
Foreign exchange differences, net	(835)	(219)
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	110,978	112,493
Equity-settled share option expenses	3,393	6,466
Other welfare	15,733	29,236
	130,104	148,195
Cost of sales of automobiles	4,835,690	4,849,554
Cost of after sales-services and others	399,209	464,380

9. INCOME TAX EXPENSE

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
The charge (credit) comprises:		
PRC Enterprise Income Tax	82,019	74,858
Deferred tax credit	(16,631)	(5,237)
	65,388	69,621

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

9. INCOME TAX EXPENSE (CONTINUED)

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the British Virgin Islands (“**BVI**”) are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. There are no assessable profits arising in Hong Kong during the period.

According to the Corporate Income Tax Law of the People’s Republic of China (the “**CIT Law**”), the income tax rate for Mainland China subsidiaries is 25% (2019: 25%).

10. DIVIDENDS

At the annual general meeting held on June 15, 2020, a final dividend of HK\$0.075 (equivalent to approximately RMB0.069) in respect of the year ended December 31, 2019 per ordinary share was approved, for a total of approximately HK\$118,100,000 (equivalent to approximately RMB108,042,000). The dividend was paid on August 13, 2020 (2019: a final dividend of RMB0.66 in respect of the year ended December 31, 2018 per ordinary share with aggregate amount of approximately RMB104,128,000).

The Board of Directors recommends not to declare any interim dividend for the six months ended June 30, 2020.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of calculating basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	234,786	286,238

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

11. EARNINGS PER SHARE (CONTINUED)

	Number of shares	
	Six months ended June 30, 2020 (Unaudited)	2019 (Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,574,663,177	1,521,791,942
Effect of dilutive potential shares:		
— Share options	—	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,574,663,177	1,521,791,942

Diluted earnings per shares for the period ended June 30, 2020 was the same as basic earnings per shares since all potential ordinary shares are anti-dilutive as the conversion of potential ordinary shares in relation to the share options has an anti-dilutive effect to the basic earnings per shares.

12. FINANCE LEASE RECEIVABLES

Certain motor vehicles of the Group are leased out under finance leases. All interest rates in the leases are fixed at the contract date over the lease terms.

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Analysed as:		
Current	110,705	92,347
Non-current	158,792	130,538
	269,497	222,885

At June 30, 2020, the future minimum lease receivables under finance leases and their present values were as follows:

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

12. FINANCE LEASE RECEIVABLES (CONTINUED)

	Minimum lease receivables June 30, 2020 RMB'000 (Unaudited)	Present value of minimum lease receivables June 30, 2020 RMB'000 (Unaudited)
Finance lease receivables:		
Within one year	138,878	110,705
Later than one year and not later than five years	176,977	158,792
	315,855	269,497
Less: Unearned finance income	(46,358)	
Present value of minimum lease payment receivables	269,497	

13. INVENTORIES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Automobiles	870,146	1,133,165
Spare parts and accessories	154,992	128,702
	1,025,138	1,261,867

At June 30, 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB425,609,000 (December 31, 2019: RMB1,014,390,000) were pledged as security for the Group's bank loans and other borrowings.

At June 30, 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB101,184,000 (December 31, 2019: RMB2,802,000) were pledged as security for the Group's bills payable.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

14. TRADE RECEIVABLES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Trade receivables	125,236	134,858

The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Within 3 months	107,145	116,228
3 months to within 1 year	18,091	18,630
	125,236	134,858

Before accepting any new customer, the Group assesses the potential customer's credit quality and pre-sets maximum credit limit for each customer. Limits and credit quality attributed to customers are reviewed regularly. Payment terms with customers are mainly on credit together with deposits received in advance. Invoices are normally payable within 30 days to 60 days from issuance, except for certain well established customers, where the terms are extended to 3 to 4 months or more.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

15. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Prepayments to suppliers	570,301	678,392
Rebate receivables	861,261	852,802
Loan to a third party	305,275	260,000
Dividend receivable	—	1,624
Amounts due from related party <i>(Note a)</i>	2,463	2,463
Advances to and interest receivable from Independent Aftersales Company <i>(Note b)</i>	350,049	357,568
VAT recoverable	120,629	134,012
Others	256,857	209,752
	2,466,835	2,496,613

Notes:

- (a) As of June 30, 2020, the Group had a balance with its associate 鄭州永達和諧汽車銷售服務有限公司 (Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.) with an amount of approximately RMB2,463,000 (2019: RMB2,463,000). The balance is unsecured, non-interest bearing and has no fixed repayment terms.
- (b) As of June 30, 2020, the loan granted to the Independent Aftersales Company with an amount of RMB350,049,000 (2019: RMB357,568,000) is unsecured and bears interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and has a fixed repayment term of five years. The loan will be matured in 2022.

None of the above assets is past due. The financial assets included in the above balances receivable have no recent history of default.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

16. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Non-current		
Investments at fair value through profit or loss		
— Unlisted equity investment in Future Mobility Corporation Limited Cayman (" FMC "), at fair value	1,389,589	1,389,589
Current		
Investments at fair value through profit or loss		
— Unlisted private fund in the PRC	88,187	88,187
Total	1,477,776	1,477,776

17. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Equity investments at fair value through other comprehensive income		
— Unlisted equity investment in Independent Aftersales Company, at fair value	118,337	118,337

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

18. TRADE AND BILLS PAYABLES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Trade payables	94,330	106,867
Bills payable	128,154	8,672
	222,484	115,539

The following is an aging analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Within 3 months	207,570	106,620
3 to 6 months	6,348	3,561
6 to 12 months	3,203	3,014
Over 12 months	5,363	2,344
	222,484	115,539

The average credit period on purchases of goods ranges from 30 to 90 days.

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

Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB101,184,000 as at June 30, 2020 (December 31, 2019: RMB2,802,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

19. LEASE LIABILITIES

	At June 30, 2020	At December 31, 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Total lease liabilities	542,869	540,417
Less: current portion	(51,197)	(30,408)
	491,672	510,009
Analysed as:		
Current	51,197	30,408
Non-current	491,672	510,009

The Group leases various office premises, shops and lands under lease agreements. The majority of lease liabilities are denominated in RMB. No arrangement has been entered into for variable lease payments.

During the six months ended June 30, 2020, the Group has no operating lease rental payments relating to short-term and low-value leases (2019: RMB7,613,000) that are recognized as expenses or included in "minimum lease payments under operating leases" in the consolidated statements of comprehensive income.

20. BANK LOANS AND OTHER BORROWINGS

	At June 30, 2020		At December 31, 2019	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
Current				
Bank loans	4.4–5.7	1,823,785	4.3–6.1	1,486,503
Other borrowings	3.7–8.5	584,318	4.0–8.5	1,007,196
Total borrowings		2,408,103		2,493,699

All the bank and other borrowings are repayable within one year as at June 30, 2020 (2019: Same).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

20. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

- (a) Certain of the Group's bank loans and other borrowings are secured by:
- (i) mortgages over the Group's right-of-use assets situated in Mainland China, which had an aggregate carrying value of approximately RMB10,597,000 as at 30 June 2020 (at 31 December 2019: RMB10,697,000);
 - (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB15,979,000 as at 30 June 2020 (at 31 December 2019: RMB16,842,000);
 - (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB425,609,000 as at 30 June 2020 (at 31 December 2019: RMB1,014,390,000); and
 - (iv) certain of the bank loans amounting to RMB200,000,000 (at 31 December 2019: RMB300,000,000) were secured by certain land of 河南和諧置業有限公司 (Henan Hexie Property Co., Ltd., of which the Chairman of the Company is an equity holder) as at 30 June 2020.
- (b) Certain of the Group's bank loans and other borrowings are guaranteed by:
- (i) certain of the Group's bank loans and other borrowings amounting to RMB1,261,867,000 were guaranteed by the Group's subsidiaries as at 30 June 2020 (at 31 December 2019: RMB300,000,000);
 - (ii) certain of the Group's bank loans and other borrowings amounting to RMB462,470,000 (at 31 December 2019: RMB1,306,715,000) were guaranteed by the legal representative of certain subsidiaries of the Company as at 30 June 2020; and
 - (iii) certain of the Group's bank loans amounting to RMB199,139,000 (as 31 December 2019: RMB300,000,000) were guaranteed by the legal representative of certain subsidiaries of the Company and his spouse as at 30 June 2020.
- (c) Except for the unsecured bank loan which is denominated in USD, all borrowings are denominated in RMB.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

21. SHARE CAPITAL

	Number of shares	Amount RMB'000
Issued and fully paid:		
Shares of HK\$0.10 each		
At January 1, 2019	1,527,115,677	12,085
Shares repurchased and cancelled	(5,852,500)	(46)
Exercise of share options	1,400,000	13
Placing of new shares	52,000,000	467
At December 31, 2019 and June 30, 2020	1,574,663,177	12,519

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

22. SHARE OPTION SCHEME

The Company operates a share option scheme (the “**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 Scheme include employees of the Company and its subsidiaries. The Scheme became effective on June 26, 2015, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on June 26, 2015. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

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For the six months ended June 30, 2020

22. SHARE OPTION SCHEME (CONTINUED)

The offer of a grant of share options may be accepted within 28 days from the date of offer, an amount of HK\$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period and ends on the expiry date of the Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average of the closing prices of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings

The following share options were outstanding under the Scheme during the period:

	At June 30, 2020 (Unaudited)		At December 31, 2019 (Audited)	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At January 1	3.24	82,631	3.32	81,791
Forfeited during the period	3.00	(32,400)	—	—
At June 30	3.40	50,231	3.32	81,791

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For the six months ended June 30, 2020

22. SHARE OPTION SCHEME (CONTINUED)

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

As at June 30, 2020 (Unaudited)			As at June 30, 2019 (Unaudited)		
Number of options	Exercise price*	Exercise period	Number of options	Exercise price*	Exercise period
'000	HK\$ per share		'000	HK\$ per share	
30,231	3.00	01.07.2017 to 28.06.2025	67,191	3.00	01.07.2017 to 28.06.2025
20,000	4.00	16.02.2020 to 17.12.2025	14,600	4.80	01.04.2018 to 28.06.2025
50,231			81,791		

* The exercise price of the share options is subject to adjustments in the case of rights or bonus issues, or similar changes in the Company's share capital.

The fair value of the share options granted on May 9, 2017 and December 17, 2019 was RMB65,091,000 (RMB0.65 each and RMB1.22 each), of which the Group recognized a share option expense of RMB3,393,000 during the six months ended June 30, 2020 (2019: RMB6,466,000).

23. BUSINESS COMBINATIONS

During the period, the Group acquired 100% equity interest in Kunming Zhongzhiyuan Dili Automobile Sales Service Co. LTD (昆明中致遠帝利汽車銷售服務有限公司) and the businesses together with their assets and liabilities of Jiujiang Zhongshunbao Automobile Sales Service Co. LTD (九江中順寶汽車銷售服務有限公司), Nanchang Baoshunxing Automobile Sales Service Co. LTD (南昌寶順行汽車銷售服務有限公司) and Shijiazhuang Harmony Binchi Automobile Sales Service Co. LTD (石家莊和諧賓馳汽車銷售服務有限公司), which are principally engaged in the sale of automobiles and after-sales service business in Mainland China, from certain third parties at a total consideration of RMB154,057,000.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

23. BUSINESS COMBINATIONS (CONTINUED)

The acquisition has been accounted for as acquisition of business using the acquisition method. The provisional goodwill and intangible assets arising from the acquisition is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the independent valuation to assess the provisional fair value of the identifiable assets acquired. They may be adjusted upon the completion of initial accounting year which shall not exceed one year from the acquisition date.

Consideration transferred

	<i>RMB'000</i>
Cash	154,057

Assets and liabilities recognised at the date of acquisition (determined on a provisional basis)

	<i>RMB'000</i>
Bank balances and cash	175
Trade and other receivables	11,354
Inventories	5,699
Property, plant and equipment	41,009
Provisional intangible assets	42,084
Trade and other payables	(13,882)
Contract liabilities	(5,740)
Deferred tax liabilities	(10,522)
	70,177

Goodwill arising on acquisition (determined on a provisional basis)

	<i>RMB'000</i>
Consideration transferred	154,057
Less: Fair value of identifiable net assets acquired	70,177
	83,880

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For the six months ended June 30, 2020

23. BUSINESS COMBINATIONS (CONTINUED)

Goodwill arising on acquisition (determined on a provisional basis) (Continued)

Goodwill arose on the acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	<i>RMB'000</i>
Consideration paid in cash	154,057
Less: Bank balances and cash acquired	175
	153,882

24. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these condensed consolidated financial statements, the Group has following transactions and balances with related party:

Relationships	Nature of balances/ transactions	Six months ended June 30,	
		2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Independent aftersales company	Advance made	—	29,700
	Interest income	—	22,880

Compensation of key management personnel

During the period, the emoluments of directors and other members of key management were HK\$7,283,000 (for the six months ended June 30, 2019: HK\$11,047,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade receivables, financial assets included in prepayments, deposits and other receivables, pledged bank deposits, cash in transit, trade and bills payables, financial liabilities included in other payables and accruals and bank loans and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the finance lease receivables and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease receivables as at June 30, 2020 and December 31, 2019 were assessed to be insignificant.

The Group did not have any financial liabilities measured at fair value as at June 30, 2020 and December 31, 2019.

There were no transfers among Level 1, 2 and 3 during the period/years.

26. CAPITAL COMMITMENTS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	90,232	128,286