



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




2021
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

Audit Committee

Mr. WANG Nengguang (*Chairman*)
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung

Remuneration Committee

Mr. CHAN Ying Lung (*Chairman*)
Mr. LIU Fenglei
Mr. LAU Kwok Fan

Nomination Committee

Mr. FENG Changge (*Chairman*)
Mr. WANG Nengguang
Mr. CHAN Ying Lung

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

ZHONGHUI ANDA CPA Limited
Unit 701-3&8
Citicorp Centre
18 Whitfield Road
Causeway Bay, Hong Kong

Principal Banks

China CITIC Bank, Zhengzhou Branch
Shanghai Pudong Development Bank, Zhengzhou
Branch
China Everbright Bank, Zhengzhou Branch
Industrial Bank, Zhengzhou Branch
Industrial Bank, Hong Kong Branch
Hang Seng Bank Limited

Registered Office

Second Floor, Century Yard
Cricket Square
P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

Corporate Information

Principal Place of Business and Headquarters 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

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard
Cricket Square
P.O. Box 902
Grand Cayman, KY1-1103
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

According to China Passenger Cars Association (CPCA), passenger cars sales came with 9,906,780 units sold in the retail market during the first half of 2021, representing a 28.4% increase from the same period last year where COVID-19 was taking a heavy toll on automobile consumption.

However, the sales momentum was substantially waning after the strong start in the first quarter this year. One of the key contributors is the chip shortage that was taking hold in the entire automobile manufacturing industry during the second quarter. Many large OEMs had to idle the plants or cut production, which in turn hurt the vehicles supply to dealers. It is highly uncertain when the chip crunch can be solved and how great the adverse impact will ripple through the automobile supply chain. From the dealership perspective, we did see some margin expansion in the industry during the first half because of this imbalance between auto demand and supply that might lead to more benign rebate and discount policies and healthier inventory level. As per data from CPCA, the average inventory level in the channel of dealership remained at around 1.5 months throughout the first half, deemed as a healthy inventory level.

Once again, luxury cars segment outgrew the overall industry in the first half. CPCA unveiled that luxury cars sales increased by 39.7% year on year to 1,471,689 units during the first six months of 2021. Yet, the growth engine of luxury cars slowed down in the second quarter mainly as a result of tight chip supply. With massive replacement demand for cars taking place in many higher tier cities in China, luxury brands will continue to be welcomed by consumers due to the consumption upgrade for the second car of the family. Another bright spot of the automobile sales year to date is arguably new energy vehicles. In the first half of 2021, as per sales data from CPCA, passenger electric vehicles (EV) posted a retail sales volume of 1,007,129 units, representing a surge of 220.9% year on year. This was primarily spurred by the continuation of the favorable policies toward EV that will be aligned with the central government's ambition to achieve carbon neutrality, and the growing popularity of some EV-focused brands, such as Tesla, Nio, Xpeng and BYD. While the EV consumption mainly concentrates in the cities with license plates limit, the adoption rate in cities without this limit also saw a take-off, which means that EV uptake in China is approaching to a more diversified spectrum.

Management Discussion and Analysis

BUSINESS OVERVIEW

China Harmony Auto Holding Limited (the “**Company**” or “**We**”, together with its subsidiaries, the “**Group**”) followed the strong growth trajectory of the industry in the first half to see a new car sales performance of 22,447 units distributed, or 53.6% increase from the same period last year. Our growth engine is still mainly fueled by BWM brand that contributed to about 76.3% of the Company’s aggregate sales volume. The Company sold 17,116 units of BMW (incl. Mini), a 51.2% higher than the sales number in the same period last year, or even 42.6% larger than the sales volume in the first half of 2019. The sales momentum of BMW brand achieved by the Company also outpaced the BMW brand’s sales growth in China, which was a 41.9% year-on-year rise. BMW brand recorded 467,000 units sold in the first half topping the No. 1 sales volume made in China among tier-one luxury brands, primarily driven by the highly welcomed models of 3 series, 5 series and X3. Other luxury brands in our brands portfolio, e.g., Lexus, Volvo, and Lincoln, also benefited from the low-base effect during the same period last year, as well as robust demand for luxury cars in China to see a quick ramp-up on sales volume growth. Sales volume made by Lexus, Volvo and Lincoln was 2,382, 1,107 and 934 units, or 28.8%, 46.6% and 243.4% year-on-year surge respectively. For ultra-luxury brands, Rolls Royce, Bentley, and Ferrari continued with their strong demand, growing at a fast pace of 78.3%, 353.3%, and 1,050% year on year respectively. The Company managed to continuously bring down the inventory level from 32 days last year to 23.7 days in the first half of 2021, which is in large parts thanks to the relatively tight supply from OEMs side and strong demand from consumer side. As of June 30, 2021, the Company had a total number of 79 authorized dealership outlets distributing 14 luxury and ultra-luxury brands, with the geographic coverage of 39 cities in 15 provinces across the country. The Company added four more authorized outlets in the first half, with 2 outlets for Ferrari, 1 outlet for Lamborghini and 1 outlet for Lexus.

In the fields of used cars and EV — presenting the next growth engines for the China car market and the Company in the future, the Company has been stepping up efforts to seize these new opportunities. We have planted seeds in the used cars segment by focusing on the current trade-in services provided to our clients and hope that we can bear fruit in this niche market soon. For the EV sales, the Company has made strategic investment in Dangdang Repair years ago which emphasizes the EV sales and aftersales services. At present, Dangdang Repair has gained authorization from Li Auto, Nio and Xpeng to offer maintenance for their car owners and sell some tier-2 EV brands in the form of “agency model”.

The Company is still looking for solutions to revitalize the strategic investment in Byton. In the early 2021, Foxconn committed an amount of USD200 million to help Byton reach the Start of Production (SOP), which was deemed as an important step for Byton. Although Byton went through a bumpy road in the first half, the Company still hopes that Byton is on the right track to unleash its true value with the help from local government and Foxconn.

Management Discussion and Analysis

Future Outlook and Development Strategies

Looking into the second half of this year, the industry is believed to have the coexistence of opportunities and challenges. Traditionally, second half of a year will be the hot season for car purchase while the high-base effect in the second half last year might weigh on the year-on-year sales volume growth number in the second half of this year. For the chip crunch, the market is currently believing that the situation will be improved marginally from the second quarter this year, meaning that the supply bottleneck could be eased to some extent. On the demand front, the pent-up automobile consumption will remain solid, particularly in the categories of luxury brands and EV, which will be deemed to be the key drivers for the sales volume growth in the rest of this year.

In the second half, we believe that the Company will be able to deliver decent results as it is the traditionally peak season, coupled with the persistently strong demand on luxury cars. Despite the chip shortage being one of the largest uncertainties in the industry that will substantially impact the current dynamics of demand and supply, the Company is capable to go through the up-and-down during the growth cycle by having a team of veterans full of vision and experience. The recent resurgence of COVID cases in China due to the delta variant has made some travel restrictions in force, which might take some negative effect on the consumption sentiment. It could be another risk for our business operation in the second half.

FINANCIAL OVERVIEW

Revenue

The Group recorded a revenue of RMB9,373.9 million in the first half of 2021, representing an increase of 62.9% compared with that of RMB5,754.7 million for the same period of last year. Among which, the sales revenue of new vehicles recorded an increase from RMB5,021.4 million to RMB8,251.3 million, accounting for 88.0% of the total revenue of the first half of 2021. While the after-sales services and brand business recorded a revenue of RMB1,096.8 million, representing an increase of 52.8% compared with that for the same period in 2020 and accounting for 11.7% of the total revenue of the first half of 2021.

As for luxury car brands, the sales revenue of BMW (including MINI) and Lexus respectively recorded an increase of 56.9% and 25.0%, jointly accounting for 86.9% of the Group's total revenue from new cars. In respect of ultra-luxury brands, Bentley and Rolls-Royce respectively registered an increase of 286.8% and 78.9% in terms of new cars sales revenue.

Cost of sales and services

The cost of sales and services of the Group saw an increase from RMB5,234.9 million of the first half of 2020 to RMB8,514.7 million, or 62.7%, of the same period of 2021. The cost of new car sales and after-sale services were respectively RMB7,906.6 million and RMB608.1 million, representing an increase of 63.5% and 52.3%.

Management Discussion and Analysis

Gross profit and gross profit margin

The gross profit of the Group increased by 65.3% from RMB519.8 million in the first half of 2020 to RMB859.2 million in the same period of 2021. The gross profit of selling new vehicles grew by 85.6% from RMB185.7 million in the first half of 2020 to RMB344.6 million in the same period of 2021. The gross profit of after-sale services and brand businesses grew by 53.3% from RMB318.7 million in the first half of 2020 to RMB488.7 million in the same period of 2021.

The Group's gross profit margin in the first half of 2021 stood at 9.2%, representing a slight increase of 0.2 percentage points compared with 9.0% in 2020, during which, the gross profit of selling new vehicles in the first half of 2021 was 4.2%, representing an increase of 0.5 percentage points compared with that of 2020. The gross profit of after-sale services in the first half of 2021 was 44.6%, representing an increase of 0.2 percentage points compared with that of 2020.

Selling and distribution expense

The Group's selling and distribution expense in the first half of 2021 was RMB426.8 million, which increased by 50.2% due to the growth of sales.

Other income and gains, net

In the first half of 2021, other net income and gains of the Group was RMB243.7 million, which registered an increase of 18.0% compared with that of the same period of last year. Other income and gains mainly came from the commission (of providing services by being an insurance agent and the agent offering car-related financial services), the gain from trading second-hand vehicles, the advertisement revenue from car manufacturers and interest income. The increase in the first half of 2021 was mainly due to the growth of new car sales.

Finance costs

The Group's finance costs in the first half of 2021 is RMB61.2 million, representing an increase by 7.2% compared to that of the same period of 2020, RMB57.1 million. The increase is attributed to the increase of the average balance of borrowings during 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 due to the increase in lease liability which led to a higher amortized interest expense.

Operation profit

To conclude, the operation profit of the Group in the first half of 2021 is RMB564.9 million, while the figure of 2020 stood at RMB366.4 million, representing an increase of 54.2%.

Management Discussion and Analysis

Profit attributable to the owners of the parent

In the first half of 2021, the profit attributable to the owners of the parent is RMB390.8 million, representing a sharp increase of 66.5% compared with that of the same period of 2020.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

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

As at June 30, 2021, the total cash and deposits of the Group is RMB1,926.6 million. In the first half of 2021, the net cash generated from operation activities of the Group is RMB462.5 million; the net cash used for investment activities is RMB155.3 million; the net cash used for financing activities is RMB120.8 million.

Net current assets

As at June 30, 2021, the net current assets of the Group is RMB2,275.1 million, representing an increase of 16.4% from RMB1,954.7 million as at December 31, 2020.

Capital expenditure

The Group's capital expenditure comprises of its expenses on plant, property, equipment and the assets with use rights. In the first half of 2021, the Group's capital expenditure (mainly used as the expenses and prepayments to purchase the property, plant and equipment for setting up new outlets) stood at RMB170.1 million (the same period of 2020: RMB166.3 million). The reason of the increase is that the Group have opened 4 new 4S stores and paid for the project expenses for new authorized stores under construction.

Management Discussion and Analysis

Inventory

The inventories of the Group are mainly passenger cars and supporting components. During the period, the inventories increased slightly by RMB24.2 million from RMB1,093.6 million as at December 31, 2020 to RMB1,117.8 million as at June 30, 2021. The Group recorded a slightly increase of the inventories while the sales volume increased sharply, and the Group's average turnover days for inventories in the first half is 23.7 days, while the figure in the first half of 2020 is 39.9 days. The Group's turnover days decreased by 16.2 days, on one hand, the drop was due to the rebound of domestic consumption after the epidemic and the support of policies, on the other hand, the 4S stores of the Group continuously strengthened the management on their orders in relation to new passenger cars and after-service products, and the headquarters of the Group have put in place a real-time system for the inventories to provide early warning, supervise and manage the inventories and resources among distribution outlets were re-distributed and adjusted so as to maintain a rational level of the inventory balance.

Bank loans and other borrowings

As at June 30, 2021, the total bank loans and other borrowings of the Group is RMB2,596.3 million, representing a decrease of 0.3% compared to the figure on December 31, 2020, RMB2,604.4 million.

	At June 30, 2021 RMB'000	At December 31, 2020 RMB'000
Bank loans		
Repayable on demand or within one year	1,873,151	1,826,745
Other borrowings:		
Repayable on demand or within one year	723,176	777,665
Total	2,596,327	2,604,410

As at June 30, 2021, the gearing ratio of the Group (the result of total liabilities divided by total assets) is 38.5%, representing a decrease of 0.4 percentage point than that at December 31, 2020, 38.9%.

Contingent liabilities

As at June 30, 2021, the Company had no material contingent liabilities or guarantees (December 31, 2020: Nil).

Management Discussion and Analysis

Interest rate risk and foreign exchange risk

The Group is exposed to the risks arising from the fluctuation of the loan rates. The Group may incur additional borrowing costs due to the rise of the loan rates. 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 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.

Employees and remuneration policies

As at June 30, 2021, the Group had 4,398 employees (the figure at December 31, 2020 is 4,206). The salary package of employees is determined by their working experiences, duties and performances. The management will conduct annual review on the salary plan while taking into account employees' general performance and market. The Group also makes contributions to employees' social security plans in 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 plan and to the share options under the share option scheme. During the period from January to June 2021, to safeguard the benefits of all shareholders, the Group has not granted shares awards in accordance with any share award plan. As at June 30, 2021, the Group has 43,891,000 outstanding share options under share option scheme, accounting for approximately 2.8% of the shares of 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 performance.

Material acquisitions, disposals and significant investments

Save as disclosed in this interim report, during the six months ended June 30, 2021, 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, 2021, the Group did not hold any other significant investments.

EVENTS AFTER THE REPORTING PERIOD

As from the end of the six months ended June 30, 2021 (the "**Reporting Period**") to the date of this report, there was no significant event that would have any material impact on the Group.

Corporate Governance and Other Information

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

As at June 30, 2021, 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	—	—	707,331,660 (L) ⁽¹⁾	2,500,000 ⁽³⁾⁽⁴⁾	709,831,660 (L)	45.01%
Ms. MA Lintao	Director	—	709,831,660 (L) ⁽²⁾	—	—	709,831,660 (L)	45.01%
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	295,000 (L)	—	—	800,000 ⁽³⁾⁽⁴⁾	1,095,000 (L)	0.07%
Mr. WANG Nengguang	Director	40,000(L)	—	—	—	40,000 (L)	0.00%

Notes:

- (1) These 707,331,660 shares in the Company are held by Eagle Seeker Company Limited (“**Eagle Seeker**”). Mr. FENG Changge is deemed to be interested in the said 707,331,660 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, 2021, 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 2019 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 the Share Option Scheme has been set out in note 16 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, 2021 were as follows:

Name of Grantees	Date granted	Exercise price per Share	Number of Share Options			Outstanding as at June 30, 2021
			Outstanding as at January 1, 2021	Exercised during the period	Cancelled during the period	
<i>Directors</i>						
Mr. FENG Changge — Executive Director and Chairman of the Board	May 9, 2017	HK\$3.00	2,500,000	—	—	2,500,000 ⁽¹⁾
Mr. LIU Fenglei — Executive Director and President	May 9, 2017	HK\$3.00	2,500,000	—	—	2,500,000 ⁽¹⁾
Ms. FENG Guo — Executive Director and Vice President	May 9, 2017	HK\$3.00	400,000	—	—	400,000 ⁽¹⁾
Mr. HAN Yang — Executive Director and Vice President	May 9, 2017	HK\$3.00	800,000	—	—	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	1,125,000	—	—	1,125,000 ⁽¹⁾
Other eligible employees	May 9, 2017	HK\$3.00	17,366,000	500,000 ⁽⁴⁾	300,000 ⁽³⁾	16,566,000 ⁽¹⁾
	December 17, 2019	HK\$4.00	20,000,000	—	—	20,000,000 ⁽²⁾
Total			44,691,000	500,000	300,000	43,891,000

Corporate Governance and Other Information

Notes:

- (1) The validity period of the 70,000,000 share options is 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 directorship of the former Director Mr. YANG Lei did not involve the grounds of termination as specified in the above (i), and his share options remained valid as at June 30, 2021.
- (2) The validity period of the 20,000,000 share options is from December 17, 2019 (i.e. date of grant) till the earlier of (i) the day on which the relevant 2019 Grantee ceases to be an employee of the Group, and (ii) December 17, 2025. 50% of these share options were vested on February 16, 2020 and 50% were vested on February 16, 2021.
- (3) A total of 300,000 share options at the exercise price of HK\$3.00 were cancelled on February 25, 2021.
- (4) A total of 500,000 share options at the exercise price of HK\$3.00 were exercised during the six months ended June 30, 2021. The weighted average closing price of the Shares of the Company immediately before the dates on which the share options were exercised was HK\$3.49.

Details of the options exercised and cancelled are set out above. No options were granted or lapsed during the period.

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, 2021, the trustee appointed by the Company for the purpose of the Share Award Plan has purchased 59,987,500 Shares according to the Share Award Plan since its adoption. 30,000,000 Shares has been granted under the Share Award Plan.

For the six months ended June 30, 2021, none of 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, 2021, 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:

Name	Capacity/Nature of Interest	Number of Shares Directly or Indirectly Held ⁽⁴⁾	Approximate % of Shareholding Interest
Eagle Seeker	Beneficial owner	707,331,660 (L)	44.86%
Eagle Pioneer Company Limited ⁽¹⁾	Interest of controlled corporation	707,331,660 (L)	44.86%
Cititrust Private Trust (Cayman) Limited ⁽²⁾	Trustee	707,331,660 (L)	44.86%
Foxconn (Far East) Limited ⁽³⁾	Beneficial owner	128,734,000 (L)	8.16%
Hon Hai Precision Industry Co. Ltd ⁽³⁾	Interest of controlled corporation	128,734,000 (L)	8.16%

Notes:

- (1) Eagle Seeker is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the 707,331,660 Shares held by Eagle Seeker.
- (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 707,331,660 Shares held by Eagle Seeker (the controlling shareholder of the Company), indirectly via Eagle Pioneer Company Limited. Mr. Feng Changge, 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, 2021, 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.

Corporate Governance and Other Information

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

During the Reporting Period, the Company repurchased a total of 6,287,000 ordinary shares of HK\$0.01 each on the Stock Exchange for a total consideration of approximately HK\$20,931,000 (excluding transaction cost). Details of the shares repurchased during the Reporting Period are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share		Aggregate consideration (excluding transaction cost) (HK\$'000)
		Highest (HK\$)	Lowest (HK\$)	
June 2021	6,287,000	3.40	3.24	20,931

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would benefit shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

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, 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended June 30, 2021, 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.

Corporate Governance and Other Information

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in Directors' biographical details is as follows:-

Mr. Lau Kwok Fan was appointed as a board member of Hong Kong Cyberport Management Company Limited in April 2021.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended June 30, 2021.

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 had reviewed this report (including the interim results and the unaudited condensed consolidated financial statements) for the six months ended June 30, 2021.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2021

	NOTES	Six months ended June 30,	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	5	9,373,909	5,754,675
Cost of sales and services		(8,514,740)	(5,234,899)
GROSS PROFIT		859,169	519,776
Other income and gains, net	6	243,680	206,550
Selling and distribution expenses		(426,794)	(284,131)
Administrative expenses		(111,112)	(75,753)
PROFIT FROM OPERATIONS		564,943	366,442
Finance costs	7	(61,207)	(57,075)
Share of (losses)/profits of joint ventures		(5)	9
Share of profits/(losses) of associates		554	(1,736)
PROFIT BEFORE TAX		504,285	307,640
Income tax expense	8	(103,699)	(65,388)
PROFIT FOR THE PERIOD	9	400,586	242,252
Other comprehensive loss after tax: <i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(25,756)	(23,739)
Other comprehensive loss for the period, net of tax		(25,756)	(23,739)
Total comprehensive income for the period		374,830	218,513
Profit for the year attributable to:			
Owners of the Company		390,836	234,786
Non-controlling interests		9,750	7,466
		400,586	242,252

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2021

	NOTES	Six months ended June 30,	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Total comprehensive income for the year attributable to:			
Owners of the Company		365,080	211,047
Non-controlling interests		9,750	7,466
		374,830	218,513
Earnings per share attributable to owners of the Company			
	11		
Basic (RMB)		0.254	0.150
Diluted (RMB)		0.253	0.150

Condensed Consolidated Statement of Financial Position

As at June 30, 2021

	NOTES	June 30, 2021 RMB'000 (Unaudited)	December 31, 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		2,960,583	2,914,140
Right-of-use assets		783,434	730,628
Intangible assets		137,520	137,581
Goodwill		141,791	141,791
Prepayments and other assets		769,097	776,818
Finance lease receivables		256,706	221,501
Investment in joint ventures		7,765	7,770
Investment in associates		7,082	6,527
Financial assets at fair value through profit or loss		1,259,412	1,273,077
Financial assets at fair value through other comprehensive income		31,800	31,800
Deferred tax assets		75,612	63,406
Total non-current assets		6,430,802	6,305,039
CURRENT ASSETS			
Finance lease receivables		188,965	156,796
Inventories		1,117,768	1,093,579
Trade receivables	13	153,364	155,364
Prepayments, other receivables and other assets		2,794,632	2,736,182
Investments at fair value through profit or loss		83,160	84,201
Pledged and restricted bank deposits		89,377	84,869
Cash in transit		67,454	22,031
Cash and bank balances		1,926,574	1,714,316
Total current assets		6,421,294	6,047,338
CURRENT LIABILITIES			
Bank loans and other borrowings		2,596,327	2,604,410
Trade and bills payables	14	220,796	264,444
Other payables and accruals		970,867	855,063
Lease liabilities		95,484	83,874
Income tax payable		262,767	284,888
Total current liabilities		4,146,241	4,092,679

Condensed Consolidated Statement of Financial Position

As at June 30, 2021

	NOTES	June 30, 2021 <i>RMB'000</i> (Unaudited)	December 31, 2020 <i>RMB'000</i> (Audited)
NET CURRENT ASSETS		2,275,053	1,954,659
TOTAL ASSETS LESS CURRENT LIABILITIES		8,705,855	8,259,698
NON-CURRENT LIABILITIES			
Lease liabilities		745,477	654,957
Deferred tax liabilities		58,039	57,254
Total non-current liabilities		803,516	712,211
NET ASSETS		7,902,339	7,547,487
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	12,540	12,536
Reserves		7,822,983	7,475,504
		7,835,523	7,488,040
Non-controlling interests		66,816	59,447
TOTAL EQUITY		7,902,339	7,547,487

Approved by the Board of Directors on August 16, 2021:

Liu Fenglei
Director

Feng Guo
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2021

	Attributable to owners of the parent												
	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	Total	Non-controlling interests	Total equity
At January 1, 2020	12,519	(85,962)	3,153,040	1,635	271,382	371,200	9,292	75,840	107,293	3,364,084	7,270,323	53,176	7,323,499
Profit for the period	—	—	—	—	—	—	—	—	—	234,786	234,786	7,466	242,252
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	—	—	—
Exchange differences on translating foreign operations	—	—	—	—	—	—	—	—	(23,739)	—	(23,739)	—	(23,739)
Total comprehensive income for the period, net of tax	—	—	—	—	—	—	—	—	(23,739)	234,786	211,047	7,466	218,513
Final 2019 dividend 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
At January 1, 2021	12,536	(101,664)	3,056,416	1,635	297,060	371,200	(77,245)	98,558	88,766	3,740,778	7,488,040	59,447	7,547,487
Profit for the period	—	—	—	—	—	—	—	—	—	390,836	390,836	9,750	400,586
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	—	—	—
Exchange differences on translating foreign operations	—	—	—	—	—	—	—	—	(25,756)	—	(25,756)	—	(25,756)
Total comprehensive income for the period, net of tax	—	—	—	—	—	—	—	—	(25,756)	390,836	365,080	9,750	374,830
Shares repurchased	—	(17,499)	—	—	—	—	—	—	—	—	(17,499)	—	(17,499)
Dividend paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	(2,381)	(2,381)
Exercise of share options	4	—	1,537	—	—	—	—	(290)	—	—	1,251	—	1,251
Equity-settled-share option arrangement	—	—	—	—	—	—	—	(1,349)	—	—	(1,349)	—	(1,349)
Transfer from retained profits	—	—	—	—	507	—	—	—	—	(507)	—	—	—
At June 30, 2021 (unaudited)	12,540	(119,163)	3,057,953	1,635	297,567	371,200	(77,245)	96,919	63,010	4,131,107	7,835,523	66,816	7,902,339

Condensed Consolidated Statement of Cash Flow

For the six months ended June 30, 2021

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	599,384	777,486
Income taxes paid	(136,843)	(48,378)
Net cash generated from operating activities	462,541	729,108
Cash flows from investing activities		
Interest received	25,650	22,837
Purchases of property, plant and equipment	(274,254)	(83,162)
Proceeds from disposal of property, plant and equipment	68,986	144,711
Proceeds from disposal of intangible assets	—	(1,171)
Purchase of intangible assets	(2,826)	—
Payments for right-of-use assets	(3,528)	(2,554)
Loan repayment from a third party	670	—
Advance and loan made to third parties	—	(45,275)
Repayment from a related party	30,000	—
Business combination and acquisition of subsidiaries	—	(153,882)
Net cash used in investing activities	(155,302)	(118,496)
Cash flows from financing activities		
Proceeds from exercise of share options	1,541	—
Repurchase of shares	(24,191)	—
Bank loans and other borrowings raised	5,217,489	4,507,324
Repayment of bank loans and other borrowings	(5,225,572)	(4,598,831)
Acquisition of non-controlling interests	—	(3,500)
Dividends paid to a non-controlling shareholder	(2,381)	—
Repayment of lease liabilities	(42,152)	(38,158)
Interest paid	(45,552)	(40,430)
Net cash used in financing activities	(120,818)	(173,595)
Net increase in cash and cash equivalents	186,421	437,017
Effect of foreign exchange rate changes, net	25,837	2,511
Cash and cash equivalents at January 1,	1,714,316	1,362,063
Cash and cash equivalents at June 30,	1,926,574	1,801,591

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

These condensed consolidated financial statements should be read in conjunction with the 2020 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2020.

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on January 1, 2021. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS** ”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s condensed consolidated financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group’s financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

3. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at June 30, 2021:

Description	Fair value measurements using:			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Recurring fair value measurements:				
<i>Equity investment at fair value through other comprehensive income</i>				
Unlisted equity investment	—	—	31,800	31,800
<i>Investments at fair value through profit or loss</i>				
Unlisted equity investment	—	—	1,259,412	1,259,412
Unlisted private fund in the PRC	—	83,160	—	83,160
Total recurring fair value measurements	—	83,160	1,291,212	1,374,372

Disclosures of level in fair value hierarchy at December 31, 2020:

Description	Fair value measurements using:			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Recurring fair value measurements:				
<i>Equity investment at fair value through other comprehensive income</i>				
Unlisted equity investment	—	—	31,800	31,800
<i>Investments at fair value through profit or loss</i>				
Unlisted equity investment	—	—	1,273,077	1,273,077
Unlisted private fund in the PRC	—	84,201	—	84,201
Total recurring fair value measurements	—	84,201	1,304,877	1,389,078

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

3. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Reconciliation of assets measured at fair value based on level 3:

Description	Equity investments at fair value through other comprehensive income RMB '000	Investments at fair value through profit or loss equity investments RMB'000	Total RMB'000
At December 31, 2020 (Audited)	31,800	1,273,077	1,304,877
Addition	—	—	—
Total gains or losses recognised in profit or loss*	—	(13,665)	(13,665)
in other comprehensive income	—	—	—
At June 30, 2021 (Unaudited)	31,800	1,259,412	1,291,212
*Include gains or losses for assets held at end of reporting period	—	(13,665)	(13,665)

Description	Equity investments at fair value through other comprehensive income RMB '000	Investments at fair value through profit or loss equity investments RMB'000	Total RMB'000
At January 1, 2020 (Audited)	118,337	1,389,589	1,507,926
Addition	—	—	—
Total gains or losses recognised in profit or loss*	—	(116,512)	(116,512)
in other comprehensive income	(86,537)	—	(86,537)
At December 31, 2020 (Audited)	31,800	1,273,077	1,304,877
*Include gains or losses for assets held at end of reporting period	—	(116,512)	(116,512)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

3. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at the end of reporting period:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 2 fair value measurements

Description	Valuation technique	Key input	Fair value June 30, 2021 RMB'000 (Unaudited)
Unlisted private fund in the PRC	Market approach	Market price of private fund	83,160
Description	Valuation technique	Key input	Fair value December 31, 2020 RMB'000 (Audited)
Unlisted private fund in the PRC	Market approach	Market price of private fund	84,201

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

3. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at the end of reporting period: (Continued)

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value June 30, 2021 RMB'000 (Unaudited)
Private equity investments classified as investments at fair value through profit or loss	Market approach	Discounts for lack of marketability	30%	Decrease	1,259,412
Equity investment at fair value through other comprehensive income	Market approach	Discounts for lack of marketability	15.8%	Decrease	31,800

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value December 31, 2020 RMB'000 (Audited)
Private equity investments classified as investments at fair value through profit or loss	Market approach	Discounts for lack of marketability	30%	Decrease	1,273,077
Equity investment at fair value through other comprehensive income	Market approach	Discounts for lack of marketability	15.8%	Decrease	31,800

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

4. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale of automobiles and provision of after-sales services. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical area

Since all of the Group's revenue was generated from the sale of automobiles and provision of after-sales services in Mainland China and over 90% of the Group's identifiable non-current assets and liabilities were located in Mainland China, no geographical segment information is presented.

Information about major customers

Since no sales to a single customer amounted to 10% or more of the Group's revenue during the period, no major customer information is presented.

5. REVENUE

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
— Revenue from the sale of automobiles and others	8,251,280	5,021,405
— Provision of after-sales services	1,096,767	717,944
Revenue from other sources		
— Finance leasing services	25,862	15,326
	9,373,909	5,754,675

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

5. REVENUE (CONTINUED)

Disaggregation of revenue from contracts with customers:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods or services		
Sale of automobiles and others	8,251,280	5,021,405
Provision of after-sales services	1,096,767	717,944
Total revenue from contracts with customers	9,348,047	5,739,349

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Timing of revenue recognition		
Goods received by the customer at a point in time	8,251,280	5,021,405
Services rendered at a point in time	1,096,767	717,944
Total revenue from contracts with customers	9,348,047	5,739,349

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

6. OTHER INCOME AND GAINS, NET

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Commission income	226,402	163,555
Interest income from loans and advances to a third party	18,602	23,872
Bank interest income	7,048	8,116
Fair value change on investments at fair value through profit or loss	(14,706)	—
Others	6,334	11,007
	243,680	206,550

7. FINANCE COSTS

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest on bank loans and other borrowings	40,250	40,430
Leases interests	20,957	16,645
	61,207	57,075

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

8. INCOME TAX EXPENSE

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current Mainland China corporate income tax		
Provision for the year	115,265	82,019
Deferred tax credit	(11,566)	(16,631)
	103,699	65,388

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% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. There are no assessable profits arising in Hong Kong during the period.

According to the Corporate Income Tax Law of the People’s Republic of China, the income tax rate for Mainland China subsidiaries is 25% (2020: 25%).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

9. PROFIT FOR THE PERIOD

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

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Directors remuneration	3,654	3,338
Fair value loss on investments at fair value through profit or loss	14,706	—
(Gain)/loss on disposal of property, plant and equipment	(8,381)	3,937
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	173,508	110,978
Equity-settled share option expenses	1,349	3,393
Other welfare	33,347	15,733
Cost of sales and services:		
Cost of sales of automobiles	7,906,659	4,835,690
Cost of aftersales services	608,081	399,209
	8,514,740	5,234,899

10. DIVIDENDS

At the annual general meeting held on June 11, 2021, a final dividend of HK\$0.079 (equivalent to approximately RMB0.066) in respect of the year ended December 31, 2020 per ordinary share was approved, for a total amount of approximately HK\$124,577,000 (equivalent to approximately RMB104,077,000). The dividend was paid on August 11, 2021 (2020: a final dividend of RMB0.069 in respect of the year ended December 31, 2019 per ordinary share with aggregate amount of approximately RMB108,048,000).

The Board of Directors recommends not to declare any interim dividend for the six months ended June 30, 2021.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	390,836	234,786
Number of shares:	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,539,416	1,574,663
Effect of dilution		
<i>weighted average number of ordinary shares:</i>		
— Share options	4,272	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,543,688	1,574,663

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2021, the Group made additions of property, plant and equipment of approximately RMB200,081,000.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

13. TRADE RECEIVABLES

The aging analysis of trade receivables, based on the date of invoice, and net of allowance, is as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Within 3 months	136,486	138,749
3 months to within 1 year	16,878	16,615
	153,364	155,364

14. TRADE AND BILLS PAYABLES

The aging analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Within 3 months	212,629	250,058
3 to 6 months	1,167	7,879
6 to 12 months	2,452	1,284
Over 12 months	4,548	5,223
	220,796	264,444

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

15. SHARE CAPITAL

	Number of issued and fully paid shares	Amount RMB'000
At December 31, 2020 (Audited) and January 1, 2021	1,576,424,677	12,536
Exercise of share options	500,000	4
At June 30, 2021 (Unaudited)	1,576,924,677	12,540

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

16. 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

16. 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; (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, 2021 (Unaudited)		At December 31, 2020 (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,	3.40	44,691	3.40	82,631
Exercised during the period	3.00	(500)	3.00	(4,940)
Forfeited during the period	3.00	(300)	3.00	(33,000)
At the end of the period	3.46	43,891	3.40	44,691

On December 17, 2019, the Group granted 20,000,000 share options to its employees.

The weighted average share price at the date immediately before share options exercised during the year was HK\$3.49 (2020: HK\$3.11) per share.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

16. 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:

June 30, 2021 (Unaudited)			June 30, 2020 (Unaudited)		
Number of options	Exercise price*	Exercise period	Number of options	Exercise price*	Exercise period
'000	HK\$ per share		'000	HK\$ per share	
23,891	3.00	1/7/2017 to 28/6/2025	24,691	3.00	1/7/2017 to 28/6/2025
20,000	4.00	16/2/2020 to 17/12/2025	20,000	4.00	16/2/2020 to 17/12/2025
43,891			44,691		

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

The fair value of the share options granted on December 17, 2019 was RMB24,400,000 (RMB1.22 each).

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

	December 17, 2019
Weighted average share price (HK\$)	3.86
Weighted average exercise price (HK\$)	4.0
Expected volatility (%)	0.49614
Expected life	6 years
Risk free rate (%)	0.0172
Expected dividend yield (%)	0.03591

No other feature of the options granted was incorporated into the measurement of fair value.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

16. SHARE OPTION SCHEME (CONTINUED)

During the period, the 500,000 share options exercised during the year resulted in the issue of 500,000 ordinary shares of the Company and new share capital of RMB4,200 (before issue expenses).

At the end of the reporting period, the Company had 43,891,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 43,891,000 additional ordinary shares of the Company and additional share capital of HK\$438,910 (equivalent to RMB369,566) (before issue expenses).

At the date of approval of these consolidated financial statements, the Company had 43,891,000 share options outstanding under the Scheme, which represented approximately 2.78% of the Company's shares in issue as at that date.

17. RELATED PARTY TRANSACTIONS

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

Transactions with a related party	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Repayment from Zhenzhou Yongda Hexie Automobile Sales & Services Co., Ltd.	1,624	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

18. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at June 30, 2021 and December 31, 2020.

19. CAPITAL COMMITMENTS

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 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	71,628	89,461

20. EVENTS AFTER THE REPORTING PERIOD

As from the end of the Reporting Period to the date of this report, there was no significant event that would have any material impact on the Group.

21. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on August 16, 2021.