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HARMONY AUTO

和諧汽車

China Harmony Auto Holding Limited

中國和諧汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03836)

CLARIFICATION ANNOUNCEMENT

Reference is hereby made to the announcement of China Harmony Auto Holding Limited (“**the Company**” or “**Harmony Auto**”), together with its subsidiaries, “**the Group**”) dated November 12, 2020 (“**the Announcement**”). As disclosed in the Announcement, the Board of Director of the Company (“**the Board**”) was aware of Bonitas Research LLC’s (“**Bonitas**”) report dated November 12, 2020 (the “**Report**”) containing allegations of misrepresentation in the financial position of the Company (“**the Related Allegations**”). The Company hereby clarifies that the allegations contained in this report are false, fabricated, and baseless. In particular, the Company points out that:

1. Issues concerning the receipt of the proceeds from the disposal of Hexie Automobile Aftersales Services Co., Ltd. (河南和諧置業有限公司) (“IAC”)

As disclosed in the Company’s 2019 Annual Report, the Company disposed of its equity in IAC in 2019 for RMB192 million and reduced its shareholding to 19.8%. The payment of RMB192 million was successfully received in the bank records, evidenced by the corresponding payment vouchers, bank statements, and company accounts. Relevant audit procedures were completed in the external audit of that year. There was no failure to receive the payment. The claims in the Bonitas report that the money had not been received were false and totally inconsistent with the facts. In addition, the transferee of the 29% equity is an independent third party and does not have any legal or factual relationship with other shareholders.

2. Issues concerning the transfer of more than RMB1 billion of tax debt

- (1) The cumulative unpaid tax of Harmony Auto has amounted to more than RMB1 billion since its establishment in 2005. Due to the problems concerning the calculation and payment methods of different local collection agencies, and the distribution of tax collection by various tax bureaus, we have been unable to reach an agreement with the tax collection agencies. As a result, the tax debt has been staying in the account and become a problem left over from history, causing negative impact on the listed Company.
- (2) At the time of IAC's separation from Harmony Auto, the parties agreed to resolve the above historical issues by transferring all such taxes to IAC. IAC will assume the tax debt, and Harmony Auto will no longer be liable for the payment of such taxes.
- (3) However, since IAC has to pay the tax debt, its independent operations have been adversely affected. IAC, Harmony Auto and Harmony Industry Group have reached agreement through negotiation that the tax debt shall be transferred to Harmony Industry Group, and Harmony Auto shall not be liable for the payment of such taxes. The payment method and the distribution of the tax payments among the tax collection agencies will be agreed by Harmony Industry Group and the relevant tax authorities. The transfer of the tax debt has been signed and sealed by the relevant regulatory authorities for approval and confirmation.
- (4) The transfer of tax debt is the true intention of the parties. It has been approved by the relevant regulatory authorities, and is legal and effective. The Bonitas report, which alleges that the payment of more than RMB1 billion is owned by individuals, is completely groundless.

3. Issues concerning the acquisition of Bentley assets in Shijiazhuang and the establishment of a new company

The acquisition of Shijiazhuang Bentley 4S Store is the acquisition of the assets of an independent third party company, not the acquisition of the equity of a third party company. Therefore, the acquired assets shall be used to equip a new company, which we have planned to establish. As a foreign-invested enterprise, Harmony Auto needs to go through more examination and approval procedures and take longer time to set up a new subsidiary. In order to accelerate the completion of the acquisition, we set up a new company in the name of the Company's employees and promptly received the acquired assets. Then, the new company was acquired by Harmony Auto and became a wholly-owned subsidiary. This acquisition structure is designed for the purpose of expediting the acquisition. As advised by the counsel, it is purely technical. The Bonitas report, which alleges the transfer of benefits, is purely fictitious and has no basis in fact.

4. Issues concerning the payment and receipt of the proceeds from transfer of Green Field Motor

According to the Strategic Cooperation Framework Agreement on “Internet + Intelligent Electric Vehicle”, which was signed among Harmony Auto and two independent third party companies in 2015, “Harmony Futeng”, which was jointly invested by the three companies and in preparation at that time, entrusted the Company to purchase the equity of Green Field Motor on their behalf. After the establishment of Aiche jointly by the three companies, Harmony Auto transferred the equity of Green Field Motor acquired to Aiche at the consideration of approximately RMB347 million. In accordance with the acquisition agreement, RMB224 million of the equity transfer payment will be offset by tax incentives obtained from local governments in the future, and the remaining advance payment has been repaid to the Company. The Company has never claimed to have received RMB347 million in cash for the transfer of the equity of Green Field Motor it acquired as agent to Aiche. The allegations in Bonitas report are false and misleading.

5. Issues concerning the so-called Future Mobility Corporation Limited Cayman (“FMC”) equity transfer

- (1) Before deciding to invest in FMC, the Company considered that there were many uncertainties in the process of electric vehicle manufacturing from the initial stage to the production of sample vehicles and financing to the final mass production. To reduce the impact of uncertainty risks on the Company in the future, the Company has signed an agreement with Mr. Feng Changge before confirming the investment. Each party has agreed to assume half of the investment, which is approximately US\$30 million. The shares will be held in the name of Harmony Auto and delivered to Mr. Feng Changge in two installments. The delivery price, delivery method and delivery time have been clearly agreed upon. The two share deliveries were for the performance of the agreement based on the price set forth in the agreement. They are not two new transfers. There is no so-called low-price transfer.
- (2) Under the terms of the agreement, Harmony Auto and Mr. Feng will each own 50% of the equity representing the approximately US\$30 million investment. The shares will be held in the name of Harmony Auto and delivered to Mr. Feng Changge in two installments. Some of the shares were delivered in 2017, while the remaining shares were delivered in 2018. In aggregate for 2017 and 2018, the actual delivery was at no discount to the price, and there was no loss in the value of the Company. However, due to the adjustment of accounting measurement method, fluctuations in the fair value changes and gains and losses were caused in 2017 and 2018. The Bonitas report is deaf to the facts, speculative and absurd.

6. Issues concerning employment of auditors

- (1) With the continuous business development of the Company, it is faced with a large number of mergers and acquisitions, and the due diligence work is very heavy. In addition to Ernst & Young, the Company also brought in Zhonghui and Deloitte as its auditors. Due to the need of division of labor, after consultation with all parties, the annual audit affairs were assigned to Zhonghui and then to Deloitte. The above labor division and adjustment have been agreed by all the relevant parties and has been handled in strict accordance with relevant regulations of the The Stock Exchange of Hong Kong Limited.
- (2) For details on the replacement of auditors for annual audit, please refer to the announcement on appointment of auditors dated January 24, 2020 and the announcement on replacement of auditors dated July 17, 2020. Both Ernst & Young and ZHONGHUI have confirmed in writing that they do not have any matters related to the proposed replacement of the auditor of the Company to be submitted to the shareholders for their attention.

After making reasonable inquiries about the Company in the relevant circumstances, the Board confirms that except as disclosed above, it is not aware of any information which must be disclosed to avoid false markets in the securities of the Company or any inside information which is required to be disclosed under Part XIVA of the Securities and Futures Ordinance (Cap. 571).

Shareholders should be aware that the relevant allegations are the opinions of Bonitas, whose interests may not be consistent with those of the shareholders. It is suspected that Bonitas colluded with third parties to suppress the Company, damage the Company's reputation and obtain improper benefits. At the same time, Mr. Feng Changge, the major shareholder of the Company, holds the shares of the Company without any equity pledge.

The Company reiterates that the allegations contained in the report published by Bonitas are false, fabricated and without any basis in fact. The Company strongly condemns it and reserves the right to take legal action and institute legal proceedings in connection with the Report.

By Order of the Board
China Harmony Auto Holding Limited
FENG Changge
Chairman and Executive Director

Hong Kong, November 13, 2020

As of the date of this announcement, the executive directors of the Company are Mr. Feng Changge, Mr. Liu Fenglei, Ms. Ma Lintao, Ms. Feng Guo and Mr. Han Yang; and the independent non-executive directors of the Company are Mr. Wang Nengguang, Mr. Lau Kwok Fan and Mr. Chan Ying Lung