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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)

**MAJOR TRANSACTION
IN RELATION TO RENEWAL AND GRANT OF LOANS
TO THE IAC GROUP**

RENEWAL AND GRANT OF LOANS TO THE IAC GROUP

During the period from 28 December 2022 to 28 August 2023, the Group, as lender, and the IAC Group (IAC is a company in which the Group through Hexie Trading (an indirect wholly-owned subsidiary of the Company) holds 19.8% equity interest), as borrower, entered into (i) the Renewal Agreements pursuant to which the Group agreed to extend the maturity dates of the IAC Matured Loans in the aggregate principal amount of approximately RMB721.4 million by one or two years (as the case may be); and (ii) the Loan Agreements pursuant to which the Group agreed to grant the IAC New Loans in the aggregate principal amount of approximately RMB45.0 million for a term of one year.

LISTING RULES IMPLICATIONS

The applicable percentage ratios in respect of (i) the renewal of each of IAC Loans A, G and M were more than 5% but less than 25% on a standalone basis; (ii) the renewal of each of IAC Loans C, D, E, F, H, J, K, L and P and the granting of each of IAC Loans B, I, N, O, Q, R and S were less than 5% on a standalone basis; (iii) the renewal of the IAC Matured Loans and grant of the IAC New Loans were more than 25% when aggregated with all outstanding IAC Loans. Accordingly, the renewal or granting of such loans constituted a major transaction of the Company and was subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Given that the renewal of the IAC Matured Loans and the grant of the IAC New Loans had already become effective, the Company will not convene a general meeting to seek ex-post approval from the Shareholders, but will prepare and despatch a circular as required under the Listing Rules on or before 23 January 2024 for Shareholders' information.

INTRODUCTION

The Company regrettably announces that it has recently come to its attention that certain transactions in relation to the renewal of loans and grant of new loans to the IAC Group had constituted a major transaction of the Company when aggregated with all outstanding loans to the IAC Group, and did not timely make announcement and seek Shareholders' approval for such transactions as required under the Listing Rules due to inadvertent oversight. Details of the transactions are set out below.

RENEWAL AND GRANT OF LOANS TO THE IAC GROUP

The Group through Hexie Trading (an indirect wholly-owned subsidiary of the Company) is interested in 19.8% equity interest in IAC, which is principally engaged in the sale of new energy vehicles and provision of after-sales services in the PRC. As the founder and a major shareholder of IAC, the Group has from time to time provided loans to support the IAC Group for its operation and business expansion uses.

During the period from 28 December 2022 to 28 August 2023, the Group, as lender, and the IAC Group, as borrower, entered into (i) the Renewal Agreements pursuant to which the Group agreed to extend the maturity dates of the IAC Matured Loans in the aggregate principal amount of approximately RMB721.4 million by one or two years (as the case may be); and (ii) the Loan Agreements pursuant to which the Group agreed to grant the IAC New Loans in the aggregate principal amount of approximately RMB45.0 million for a term of one year. The principal amounts of the IAC New Loans were determined based on the capital requirements of the IAC Group to finance its operation and business expansion.

The Group financed the IAC New Loans with its internal resources. As at the date of this announcement, the total outstanding principal amount of the IAC Loans is approximately RMB766.4 million.

Set out below is a summary of all outstanding loans provided by the Group to the IAC Group as at the date of this announcement and their respective terms:

IAC Loan	Date of the Agreement	Initial date of grant	Last maturity date	Maturity date (as extended) (Note 1)	Interest rate (Note 2)	Principal amount (RMB)
A	28 December 2022	28 December 2017	28 December 2022	28 December 2024	4.35%	390,000,000
B	5 March 2023	8 March 2023	N/A	8 March 2024	4.35%	5,860,000
C	3 April 2023	8 January 2018	3 April 2023	3 April 2025	4.35%	30,000,000
D	11 April 2023	22 January 2019	11 April 2023	11 April 2025	4.35%	1,100,000
E	17 April 2023	8 January 2019	17 April 2023	17 April 2025	4.35%	7,000,000
F	30 April 2023	28 February 2022	30 April 2023	30 April 2024	4.35%	10,000,000
G	1 May 2023	1 May 2021	1 May 2023	1 May 2024	4.35%	136,428,064
H	11 May 2023	12 February 2019	11 May 2023	11 May 2025	4.35%	7,000,000
I	23 May 2023	26 May 2023	N/A	26 May 2024	4.35%	4,350,237
J	25 May 2023	25 January 2019	25 May 2023	25 May 2025	4.35%	10,000,000
K	26 May 2023	18 May 2022	30 June 2023	30 June 2024	4.35%	10,000,000
L	31 May 2023	31 May 2019	31 May 2023	31 May 2025	4.35%	30,000,000
M	6 June 2023	30 May 2018	6 June 2023	6 June 2024	4.35%	65,000,000
N	11 June 2023	14 June 2023	N/A	14 June 2024	4.35%	1,260,700
O	21 June 2023	26 June 2023	N/A	26 June 2024	4.35%	433,067
P	28 June 2023	1 March 2019	28 June 2023	28 June 2025	4.35%	24,900,000
Q	4 July 2023	4 July 2023	N/A	4 July 2024	4.35%	2,903,845
R	2 August 2023	2 August 2023	N/A	2 August 2024	4.35%	12,000,000
S	28 August 2023	28 August 2023	N/A	28 August 2024	4.35%	18,182,877
					Total	<u>766,418,791</u>

Note:

- (1) The principal amount and accrued interest shall be repaid on the extended maturity date. If the IAC Group failed to settle the outstanding amount in full upon maturity, the Group shall be entitled to receive the proceeds from the IAC Group's daily operations until all outstanding amount has been repaid.
- (2) Interest rate shall be equivalent to the 1-year PBOC benchmark lending rate (being 4.35%) and shall be adjusted accordingly if there is a change in the benchmark rate.

REASONS FOR RENEWAL AND GRANT OF LOANS TO THE IAC GROUP

The Group is principally engaged in the sale of automobiles and provision of after-sales services in the PRC.

As the founder and a major shareholder of IAC, the Group has from time to time provided loans to the IAC Group for its operation and business expansion uses. No shareholders' loan or financial assistance have been provided by other shareholders of IAC.

As disclosed in the Company's annual report for the year ended 31 December 2022, as affected by the COVID-19 epidemic, the IAC Group had suffered from cashflow issues and the interest accrued to all outstanding IAC Loans in 2022 in the amount of approximately RMB32.7 million were not settled. An impairment loss of approximately RMB354.6 million has been provided for the advances to and interest receivable from the IAC Group in accordance with the applicable accounting standards and based on the expected credit loss assessment prepared by an independent valuer engaged by the Company.

Despite the above, at the request of the IAC Group, the Group agreed to extend the maturity dates of the IAC Matured Loans and grant the IAC New Loans to the IAC Group for the reasons set out below.

- (i) the new energy vehicle market in the PRC is at a rapid expansion stage. Based on the data published by China Association of Automobile Manufacturers, approximately 7.1 million and 6.9 million of new energy vehicles were manufactured and sold, respectively, in the PRC in 2022, representing an increase of approximately 96.9% and 93.4% from 2021, respectively, and the market share of new energy vehicles in the PRC rose from approximately 12.1% in 2021 to 25.6% in 2022. The Group is confident that the IAC Group will benefit from the fast-growing new energy vehicles market;
- (ii) the IAC Group started to transform itself from an independent after-sales service provider to a new energy vehicles dealer in 2019. Since then, the IAC Group has been rapidly expanding its dealership network by acquiring licensing for new energy vehicles brands and setting up new 4S stores, which requires substantial capital outlays and working capital. Therefore, it would be desirable for the IAC Group to retain more capital for business expansion. As at the date of this announcement, the IAC Group is the authorised dealer of seven new energy vehicle brands and the number of 4S stores has increased to 24, including eight for a new brand which soft launched in the second half of 2023;
- (iii) the performance of the IAC Group's new energy vehicles business has been improving over the years. Number of new energy vehicles sold increased from 652 in 2020 to

1,715 in 2022 and to 2,417 for the ten months ended 31 October 2023, which was mainly attributable to the expansion of sales network and the addition of new brand licencing. It is expected that the results of the IAC Group will further improve as its sales network expands; and

- (iv) the IAC Group has been in discussions with potential investors and banks for financing. It is intended that part of the funds to be raised from the above means would be used to repay part of the loans owed to the Group.

Based on the above, the Company is of the view that the terms of the Renewal Agreements and the Loan Agreements are fair and reasonable and the renewal of the IAC Matured Loans and grant the IAC New Loans are in the interests of the Company and the Shareholders as a whole.

BACKGROUND OF THE IAC GROUP

IAC and its subsidiaries are principally engaged in the sale of new energy vehicles and provision of after-sales services in the PRC.

As at the date of the Renewal Agreements and the Loan Agreements, IAC was owned as to 19.8% by Hexie Trading, 25.12% by 西藏藍徹瑞創業投資管理合夥企業(有限合夥) (Tibet Lancherui Venture Capital Management Partnership (Limited Partnership)*, “**Lancherui**”), 29.00% by 鄭州萬銀資產管理有限公司 (Zhengzhou Wanyin Asset Management Co., Ltd.*, “**Wanyin**”), 25.12% by 深圳市眾智匯投資有限公司 (Shenzhen Zhongzhihui Investment Co., Ltd.*, “**Zhongzhihui**”). The remaining equity interest of IAC of less than 1% was held by two companies. The ultimate beneficial owners of Lancherui were Mr. Chen Yi, Mr. Feng Changjin (the brother of Mr. Feng Changge (who is the chairman of the Board as well as an executive Director and the ultimate controlling Shareholder)) and Mr. Yang Lei, while the ultimate beneficial owner of Wanyin and Zhongzhihui were Ms. Sun Yanming and Mr. Lian Xiao respectively. To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, IAC and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

LISTING RULES IMPLICATIONS

The applicable percentage ratios in respect of (i) the renewal of each of IAC Loans A, G and M were more than 5% but less than 25% on a standalone basis; (ii) the renewal of each of IAC Loans C, D, E, F, H, J, K, L and P and the granting of each of IAC Loans B, I, N, O, Q, R and S were less than 5% on a standalone basis; (iii) the renewal of the IAC Matured Loans and the grant of the IAC New Loans were more than 25% when aggregated with all outstanding IAC Loans. Accordingly, the renewal and granting of such loans constituted a major transaction of the Company and was subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

Given that the renewal of the IAC Matured Loans and the grant of the IAC New Loans had already become effective, the Company will not convene a general meeting to seek ex-post approval from the Shareholders, but will prepare and despatch a circular as required under the Listing Rules on or before 23 January 2024 for Shareholders' information.

REMEDIAL ACTIONS

The Company did not timely make announcement and seek Shareholders' approval in respect of the renewal and grant of the aforesaid loans as required under Chapter 14 of the Listing Rules. The Company considers the failure was mainly due to misunderstanding in the handover of work as a result of change in personnel handling the size tests preparation and inadequate training and guidance provided to the replacement staff.

In order to avoid the occurrence of similar non-compliance with the Listing Rules in the future and enhance its internal controls, the Company has recruited a full time compliance officer to oversee the Group's compliance matters. The compliance officer will provide comprehensive internal training on the Listing Rules and subsequent assistance and guidance to the relevant staff (particularly when there is a handover) in order to ensure that they have the required knowledge to carry out their compliance related duties, in particular the size test calculation for the renewal and grant of loans and the aggregation rules. Regular training by external professionals will also be arranged for the relevant staff in order to refresh their knowledge and skills and keep abreast of the Listing Rules requirements. In addition, she will be responsible for, among other things, reviewing size tests, reviewing and updating the Group's internal control policy and procedures when appropriate, and ensuring effective implementation of the internal control procedures in the office automation (OA) system for contract approvals for proposed transactions. The head of finance department shall also provide better guidance to the finance staff particularly when there is a handover of duty of size tests preparation, and strengthen his supervision in this matter.

With the above proposed measures, the Board is confident that the enhanced internal controls are effective and sufficient to prevent reoccurrence of similar non-compliance of the Listing Rules. Going forward, the Board will closely monitor the implementation of the remedial measures and the Company will continue to assess and enhance the internal control procedures of the Group from time to time to ensure strict compliance with the Listing Rules.

DEFINITIONS

In this announcement, the following terms have the meanings set out below, unless the context otherwise requires:

“Board”	the board of Directors
“Company”	China Harmony Auto Holding Limited (stock code: 3836), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“connected persons”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company, from time to time
“Group”	the Company and its subsidiaries from time to time
“Hexie Trading”	河南和諧汽車貿易有限公司 (Henan Hexie Automobile Trading Co., Ltd.*), an indirect wholly-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IAC”	河南和諧汽車維修服務有限公司 (Henan Hexie Automobile Aftersales Services Co., Ltd.*), a company in which the Group through Hexie Trading has a 19.8% equity interest
“IAC Group”	IAC and its subsidiaries from time to time
“IAC Loan A”	the loan owed by the IAC Group to the Group in the principal amount of RMB390,000,000 which had a maturity date on 28 December 2022 before the renewal
“IAC Loan B”	the loan provided by the Group to the IAC Group in the principal amount of RMB5,860,000 for one year from 8 March 2023 to 8 March 2024
“IAC Loan C”	the loan owed by the IAC Group to the Group in the principal amount of RMB30,000,000 which had a maturity date on 3 April 2023 before the renewal
“IAC Loan D”	the loan owed by the IAC Group to the Group in the principal amount of RMB1,100,000 which had a maturity date on 11 April 2023 before the renewal

“IAC Loan E”	the loan owed by the IAC Group to the Group in the principal amount of RMB7,000,000 which had a maturity date on 17 April 2023 before the renewal
“IAC Loan F”	the loan owed by the IAC Group to the Group in the principal amount of RMB10,000,000 which had a maturity date on 30 April 2023 before the renewal
“IAC Loan G”	the loan owed by the IAC Group to the Group in the principal amount of RMB136,428,064.26 which had a maturity date on 1 May 2023 before the renewal
“IAC Loan H”	the loan owed by the IAC Group to the Group in the principal amount of RMB7,000,000 which had a maturity date on 11 May 2023 before the renewal
“IAC Loan I”	the loan provided by the Group to the IAC Group in the principal amount of RMB4,350,237 for one year from 26 May 2023 to 26 May 2024
“IAC Loan J”	the loan owed by the IAC Group to the Group in the principal amount of RMB10,000,000 which had a maturity date on 25 May 2023 before the renewal
“IAC Loan K”	the loan owed by the IAC Group to the Group in the principal amount of RMB10,000,000 which had a maturity date on 30 June 2023 before the renewal
“IAC Loan L”	the loan owed by the IAC Group to the Group in the principal amount of RMB30,000,000 which had a maturity date on 31 May 2023 before the renewal
“IAC Loan M”	the loan owed by the IAC Group to the Group in the principal amount of RMB65,000,000 which had a maturity date on 6 June 2023 before the renewal
“IAC Loan N”	the loan provided by the Group to the IAC Group in the principal amount of RMB1,260,700 for one year from 14 June 2023 to 14 June 2024
“IAC Loan O”	the loan provided by the Group to the IAC Group in the principal amount of RMB433,067 for one year from 26 June 2023 to 26 June 2024

“IAC Loan P”	the loan owed by the IAC Group to the Group in the principal amount of RMB24,900,000 which had a maturity date on 28 June 2023 before the renewal
“IAC Loan Q”	the loan provided by the Group to the IAC Group in the principal amount of RMB2,903,845 for one year from 4 July 2023 to 4 July 2024
“IAC Loan R”	the loan provided by the Group to the IAC Group in the principal amount of RMB12,000,000 for one year from 2 August 2023 to 2 August 2024
“IAC Loan S”	the loan provided by the Group to the IAC Group in the principal amount of RMB18,182,877 for one year from 28 August 2023 to 28 August 2024
“IAC Loans”	the loans provided by the Group to the IAC Group from time to time for its operation and business expansion uses
“IAC Matured Loans”	IAC Loan A, IAC Loan C, IAC Loan D, IAC Loan E, IAC Loan F, IAC Loan G, IAC Loan H, IAC Loan J, IAC Loan K, IAC Loan L, IAC Loan M and IAC Loan P
“IAC New Loans”	IAC Loan B, IAC Loan I, IAC Loan N, IAC Loan O, IAC Loan Q, IAC Loan R and IAC Loan S
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement B”	the agreement dated 5 March 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to a loan in the amount of RMB5,860,000
“Loan Agreement I”	the agreement dated 23 May 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to a loan in the amount of RMB4,350,237
“Loan Agreement N”	the agreement dated 11 June 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to a loan in the amount of RMB1,260,700

“Loan Agreement O”	the agreement dated 21 June 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to a loan in the amount of RMB433,067
“Loan Agreement Q”	the agreement dated 4 July 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to a loan in the amount of RMB2,903,845
“Loan Agreement R”	the agreement dated 2 August 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to a loan in the amount of RMB12,000,000
“Loan Agreement S”	the agreement dated 28 August 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to a loan in the amount of RMB18,182,877
“Loan Agreements”	the Loan Agreement B, the Loan Agreement I, the Loan Agreement N, the Loan Agreement O, the Loan Agreement Q, the Loan Agreement R and the Loan Agreement S
“PBOC”	The People’s Bank of China
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Renewal Agreement A”	the agreement dated 28 December 2022 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan A
“Renewal Agreement C”	the agreement dated 3 April 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan C
“Renewal Agreement D”	the agreement dated 11 April 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan D
“Renewal Agreement E”	the agreement dated 17 April 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan E

- “Renewal Agreement F” the agreement dated 30 April 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan F
- “Renewal Agreement G” the agreement dated 1 May 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan G
- “Renewal Agreement H” the agreement dated 11 May 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan H
- “Renewal Agreement J” the agreement dated 25 May 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan J
- “Renewal Agreement K” the agreement dated 26 May 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan K
- “Renewal Agreement L” the agreement dated 31 May 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan L
- “Renewal Agreement M” the agreement dated 6 June 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan M
- “Renewal Agreement P” the agreement dated 28 June 2023 entered into between the Group (as lender) and the IAC Group (as borrower) in relation to the extension of the maturity date of IAC Loan P
- “Renewal Agreements” the Renewal Agreement A, the Renewal Agreement C, the Renewal Agreement D, the Renewal Agreement E, the Renewal Agreement F, the Renewal Agreement G, the Renewal Agreement H, the Renewal Agreement J, the Renewal Agreement K, the Renewal Agreement L, the Renewal Agreement M and the Renewal Agreement P

“Share(s)”	ordinary shares of par value HK\$1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	renminbi, the lawful currency of the PRC
“%”	per cent.

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

Hong Kong, 2 January 2024

The English transliteration of the Chinese names in this announcement, where indicated with “”, is included for information only, and should not be regarded as the official English names of such Chinese names.*

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