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Brilliance Auto

華 晨 汽 車

BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

(華 晨 中 國 汽 車 控 股 有 限 公 司) *

(Incorporated in Bermuda with limited liability)

(Stock Code: 1114)

SUMMARY OF KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

This announcement is made by Brilliance China Automotive Holdings Limited (the “**Company**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to (i) the announcements of the Company dated 31st March, 2021, 14th April, 2021, 23rd April, 2021, 31st May, 2021, 31st August, 2021 and 29th October, 2021 in relation to, among other matters, delay in publication of the 2020 Annual Results and the 2021 Interim Results, formation of independent board committee, appointment of independent investigator to conduct Independent Investigation on the Unauthorized Guarantees and the Additional Issues (collectively, the “**Audit Issues**”), delay in despatch of the 2020 Annual Report and the 2021 Interim Report, the appointment of the Internal Control Consultant, the Resumption Guidance and suspension of trading in the shares of the Company from 9:00 a.m. on 31st March, 2021; (ii) the quarterly update announcements of the Company dated 30th June, 2021 and 30th September, 2021; and (iii) the announcement dated 10th June, 2021 in relation to certain legal proceedings commenced against a wholly-owned subsidiary of the Company (the “**Announcements**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

* For identification purposes only

BACKGROUND

As disclosed in the Company's announcements dated 14th April, 2021 and 21st May, 2021, the Board has formed the Independent Board Committee, currently comprised of Mr. Song Jian, Mr. Jiang Bo and Mr. Dong Yang, all of whom are independent non-executive directors of the Company, for the purpose of engaging an independent firm to conduct the Independent Investigation.

On 23rd April, 2021, the Independent Board Committee appointed RSM to conduct the Independent Investigation.

As one of the Resumption Guidance as disclosed in the Company's announcement dated 31st May, 2021, the Company is required to conduct an appropriate independent investigation into the Audit Issues, assess and announce the impact on the Company's business operation and financial position and take appropriate remedial actions.

On 15th September, 2021, RSM produced the Draft Report to the Independent Board Committee, which was subject to performance of further works by RSM before finalisation of the Draft Report.

On 12th November, 2021, RSM issued a report of the Independent Investigation to the Independent Board Committee (the "**Independent Investigation Report**").

This announcement outlines the key findings of the Independent Investigation and the observations made by the Independent Board Committee.

SUMMARY OF KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

1. Unauthorized Guarantees

Background

As stated in the announcement of the Company dated 14th April, 2021, SJAI has provided the Unauthorized Guarantees in favour of Export-Import Bank, Huaxia Bank, Harbin Bank and China Everbright Bank to secure loans to Huachen.

As subsequently announced by the Company in the Announcements, each of Export-Import Bank, Harbin Bank and China Everbright Bank has commenced legal proceedings against SJAI in relation to the Unauthorized Guarantees (the "**Legal Proceedings**").

Findings

Based on the Independent Investigation, RSM noted that Huachen had loans with Export-Import Bank, Huaxia Bank, Harbin Bank and China Everbright Bank with maturity dates falling from early-to-mid 2020 (the “**Huachen Loans**”). Commencing from February 2020, each of Export-Import Bank, Huaxia Bank, Harbin Bank and China Everbright Bank contacted Mr. Ren Yanqi (“**Mr. Ren**”), the deputy head of the capital management department of Huachen, to discuss extension of the respective Huachen Loans. As part of the conditions to the extension of the respective Huachen Loans, each of Export-Import Bank, Huaxia Bank, Harbin Bank and China Everbright Bank requested that additional security in the form of guarantee be provided by SJAI. Mr. Ren reported the banks’ requests to Ms. Ma Nina (“**Ms. Ma**”), who served as the head of the capital management department of Huachen from September 2019 to March 2020, the deputy chief accountant of Huachen from September 2019 to May 2021, and also an executive director of the Company from 29th July, 2020 to 5th November, 2021. At the material time, Ms. Ma did not accept the banks’ request and pointed out that as SJAI is a wholly-owned subsidiary of the Company, if SJAI is required to provide guarantees for Huachen, announcements must be made on the website of the Stock Exchange and such provision of guarantees will be subject to approval by the shareholders of the Company (the “**Approval Requirements**”). As such, Ms. Ma directed Mr. Ren to propose alternative guarantees to the banks. Upon further negotiations with the banks and having been informed of the Approval Requirements, the banks proposed for SJAI to provide guarantees for Huachen in the form of “undisclosed guarantee” as the final plan acceptable to the banks for the extension of the respective Huachen Loans and put forward the following points:

- (i) the guarantees to be provided by SJAI do not need to be approved by the shareholders at a meeting of the shareholders of the Company in accordance with the relevant rules and regulations;
- (ii) the banks do not require the Company to make disclosures in accordance with the relevant rules and regulations;
- (iii) Huachen only needs to provide the banks with resolutions of the shareholders of SJAI; and
- (iv) the banks will not register the guarantees with the Credit Reference Center of the People’s Bank of China (中國人民銀行徵信中心).

Due to a shortage in funds, Huachen did not have sufficient funds to repay the Huachen Loans at the material time. As such, Ms. Ma reported the banks' request at the presidents business meeting of Huachen in early March 2020 (the “**2020 Huachen President Meeting**”). According to the interviews conducted with Ms. Ma and Mr. Gao Xingang (高新剛) (“**Mr. Gao**”), the chief accountant of Huachen, the participants of the 2020 Huachen President Meeting included Mr. Liu Pengcheng (劉鵬程) (“**Mr. Liu**”), the president of Huachen at the material time, Mr. Liu Tongfu (劉同富) (“**Mr. LiuT**”), the executive vice president of Huachen at the material time, Mr. Gao and Ms. Ma. There were, however, no written record of the contents of the discussions at the 2020 Huachen President Meeting nor list of attendees at the 2020 Huachen President Meeting. RSM only learned of the contents of the discussions at the 2020 Huachen President Meeting through interviews with Mr. LiuT, Ms. Ma, and Mr. Gao.

According to a copy of the resolutions of the board of directors of Huachen bearing the signatures of Mr. Yan Bingzhe (閻秉哲) (“**Mr. Yan**”), the chairman of Huachen and an executive director and chief executive officer of the Company at the material time, Mr. Liu and Mr. LiuT obtained from the administrator of the Huachen bankruptcy restructuring, a meeting of the board of directors of Huachen was convened on 26th April, 2020 whereby it was resolved that Huachen was to apply for a credit line of RMB310 million and a loan extension in relation to RMB290 million from Export-Import Bank, which shall be jointly guaranteed by SJAI and Brilliance Automotive Investment (Dalian) Co., Ltd.* (華晨汽車投資(大連)有限公司), a subsidiary of Huachen.

Following the approval by attendees of the 2020 Huachen President Meeting, Ms. Ma instructed Mr. Ren to prepare a circular titled “In relation to Xing Yuan Dong’s facilitation of SJAI’s obtaining finance for Huachen and its subsidiaries (關於興遠東公司協助金杯汽控公司為集團融資的函)” (the “**Circular**”) to Shenyang XingYuanDong Automobile Component Co., Ltd.* (瀋陽興遠東汽車零部件有限公司) (“**Xing Yuan Dong**”), the sole shareholder of SJAI, setting out the instructions of Huachen in relation to the Unauthorized Guarantees and for the carrying out of the following businesses:

Unauthorized Guarantees

- (a) provide guarantees in favour of China Everbright Bank as security for the cumulative bank financing of Huachen with amount not exceeding RMB4,000,000,000
- (b) provide guarantees in favour of Export-Import Bank as security for the cumulative bank financing of Huachen with amount not exceeding RMB600,000,000
- (c) provide guarantees in favour of Huaxia Bank as security for the cumulative bank financing of Huachen with amount not exceeding RMB200,000,000
- (d) provide guarantees in favour of Harbin Bank as security for the cumulative bank financing of Huachen with amount not exceeding RMB300,000,000

Additional Issues

- (e) provide deposit pledges to China Minsheng Bank Co., Ltd. (中國民生銀行股份有限公司) as security for the issue of the RMB400,000,000 bank acceptance bill (the “**Minsheng Bank Deposit Pledges**”) by Huachen
- (f) provide deposit pledges as security for bank financing (the “**Shengjing Bank Deposit Pledges**”) offered to Shenyang Brilliance Power Train Machinery Co., Ltd.* (瀋陽華晨動力機械有限公司) (“**Brilliance Power**”), a subsidiary of Huachen, and/or Shenyang Huayixin Automobile Sales Co., Ltd.* (瀋陽華益新汽車銷售有限公司) (“**Huayixin**”), an independent third party and a customer of Huachen, by Shengjing Bank with cumulative amount not exceeding RMB4,000,000,000

The Circular was then affixed with the official chop of Huachen and delivered to Mr. Du Bo (都波) (“**Mr. Du**”), the then financial controller of Xing Yuan Dong and who was concurrently acting as the financial controller of SJAI and also serving as the deputy head of the finance and economic operations department of Huachen. Upon receipt of the Circular, Mr. Du prepared the resolutions of the shareholders of SJAI in accordance with the request of China Everbright Bank, Export-Import Bank, Huaxia Bank and Harbin Bank. Since SJAI and Xing Yuan Dong are wholly-owned subsidiaries of the Company, and Xing Yuan Dong is the sole shareholder of SJAI, the resolutions of the shareholders of SJAI need only be authorised by Xing Yuan Dong and sealed with Xing Yuan Dong’s official seal, which was kept by Ms. Shi Wei (時微), the secretary-in-charge of Xing Yuan Dong.

The use of the official seal of Xing Yuan Dong was subject to a written approval process. Ms. Meng Jingyi (孟靜怡) (“**Ms. Meng**”), the general ledger accountant of Xing Yuan Dong and who is also concurrently acting as the cashier of SJAI, prepared the application form for use of the official seal, which was then reviewed by Ms. Sun Yuqin (孫玉芹) (“**Ms. Sun**”), the finance manager of Xing Yuan Dong, and approved by Mr. Du and Mr. Qi Bin (齊濱) (“**Mr. Qi**”), the general manager of Xing Yuan Dong, before the official seal can be used. Mr. Qi had reviewed the Circular and had verbally confirmed to proceed with the Unauthorized Guarantees with Ms. Ma before approving the application. The application form obtained by RSM bears the signatures of Ms. Meng, Ms. Sun, Mr. Du and Mr. Qi, which was consistent with the above-mentioned written approval process.

RSM obtained the Circular from Xing Yuan Dong and based on the comparison between the information stated therein with the identified guarantee contracts in relation to the Unauthorized Guarantees, RSM identified two inconsistencies in the amount of the Unauthorized Guarantees. Details of the two inconsistencies are set out below:

	Maximum guaranteed amount stated in the Circular	Maximum guaranteed amount stated in the guarantee contracts in relation to the relevant Unauthorized Guarantees
China Everbright Bank	not exceeding RMB4,000,000,000	not exceeding RMB4,400,000,000
Huaxia Bank	not exceeding RMB200,000,000	not exceeding RMB600,000,000

According to RSM's interview with Mr. Ren, Mr. Ren indicated that the matters stated in the Circular only seek to provide direction for the Unauthorized Guarantees with the final guaranteed/pledged amounts subject to further communications between Huachen and the relevant banks. As confirmed by Mr. Du to RSM, the final guaranteed amounts were confirmed by Mr. Ren through verbal communications with the relevant banks and no supporting documents are available.

According to interviews with Mr. Yan, Mr. Sun Baowei (孫寶偉) (“**Mr. Sun**”), an executive director of the Company at the material time, Ms. Ma and Mr. Wang Jitao (王季韜) (“**Mr. Wang**”), who was appointed as financial controller of Xing Yuan Dong and also concurrently acting as the financial controller of SJAI since July 2020, in early February 2021, Huachen and SJAI received letter from China Everbright Bank stating that SJAI has provided guarantee for Huachen. Mr. Yan and Mr. Sun then made enquiry with Ms. Ma and Mr. Wang. Mr. Wang also sought legal advice in the name of SJAI. At the material time, Mr. Yan, Mr. Sun, Ms. Ma and Mr. Wang did not report the Unauthorized Guarantees nor the relevant legal proceedings commenced by China Everbright Bank to other directors of the Company and the Auditors.

Based on the identified guarantee contracts in relation to the Unauthorized Guarantees and a summary of the Unauthorized Guarantees prepared by SJAI (the “**Unauthorized Guarantees Summary**”), set out below is a summary of the Unauthorized Guarantees to secure loans to Huachen and the outstanding balance under the Unauthorized Guarantees as of 31st December, 2020 and 30th April, 2021:

Creditor bank	Date of guarantee	Guaranteed amount (RMB)	Outstanding balance under the Unauthorized Guarantees as per the Unauthorized Guarantees Summary (RMB)	Outstanding balance under the Unauthorized Guarantees as of 31st December, 2020 as per confirmation from the relevant banks (RMB)	Outstanding balance under the Unauthorized Guarantees as of 30th April, 2021 as per confirmation from the relevant banks (RMB)
1. China Everbright Bank	16th March, 2020	4,400,000,000	2,643,872,007.64	2,935,938,040.88	2,631,647,142.86
2. Export-Import Bank	27th April, 2020	309,000,000	598,000,000.00	No reply from bank	No reply from bank
3. Export-Import Bank	27th April, 2020	289,000,000			
4. Huaxia Bank	4th June, 2020	400,000,000	199,747,143.78	199,747,143.78	199,747,143.78
5. Huaxia Bank	15th September, 2020	200,000,000			
6. Harbin Bank	19th May, 2020	300,000,000	300,000,000.00	300,000,000.00	300,000,000.00
Total guaranteed amount under the Unauthorized Guarantees		<u>5,898,000,000</u>	<u>3,741,619,151.42</u>	<u>Not applicable</u>	<u>Note applicable</u>

In order to ascertain the completeness of the guarantee contracts in relation to the Unauthorized Guarantees and the accuracy of the outstanding balances of the Unauthorized Guarantees, RSM issued confirmation request letters for the year ended 31st December, 2020 and the four months ended 30th April, 2021, respectively, to all banks which SJAI has maintained bank accounts with during the relevant period, including but not limited to China Everbright Bank, Export-Import Bank, Harbin Bank and Huaxia Bank.

Each of Harbin Bank and Huaxia Bank had replied confirming that they do not have any contrary view to the information relating to the relevant Unauthorized Guarantees with their bank in respect of which confirmation is sought in the confirmation request letters. China Everbright Bank replied confirming that the information on the guarantee contracts and the guaranteed amount conform with their internal record, but they hold inconsistent opinion on the balance of the guarantees. Up to the date of the Independent Investigation Report, no reply has been received from Export-Import Bank. Details of the Legal Proceedings which have been commenced against SJAI in relation to the Unauthorized Guarantees are set out in the Announcements.

2. Additional Issues

Background

As stated in the announcement of the Company dated 14th April, 2021, on 13th April, 2021, the Board and the Audit Committee of the Board received a letter from the Auditors stating that it was revealed in the bank confirmation letters from the four Shenyang branches/sub-branches of Shengjing Bank that (a) the aggregate approximate amount of bank deposit mentioned in the bank confirmation letters was RMB1,730 million less than the amount recorded in the books of SJAI relating to bank deposits; (b) the structured deposit in the amount of RMB650 million recorded in the books of SJAI was not mentioned in the bank confirmation letters of Shengjing Bank; and (c) SJAI has provided guarantees to two companies in the aggregate amount of RMB650 million (collectively the “**Additional Issues**”).

Findings

Based on the Independent Investigation, during 2020, SJAI had pledged certain of its cash deposits (the “**Deposit Pledges**”) deposited with Shengjing Bank (Shenyang Branch Business Department) (盛京銀行瀋陽分行營業部) (“**Shengjing Bank (Shenyang Branch Business Department)**”), Shengjing Bank (Yaming Branch) (盛京銀行瀋陽市亞明支行) (“**Shengjing Bank (Yaming Branch)**”), Shengjing Bank (Wanquan Branch) (盛京銀行瀋陽市萬泉支行) (“**Shengjing Bank (Wanquan Branch)**”), Shengjing Bank (Dongling Branch) (盛京銀行瀋陽市東陵支行) (“**Shengjing Bank (Dongling Branch)**”), China Minsheng Bank Co., Ltd. (Shenyang Changjiang Street Sub-branch) (中國民生銀行股份有限公司瀋陽長江街支行) (“**Minsheng Bank**”) and Bank of Yingkou (Shengyang Branch) (營口銀行股份有限公司瀋陽分行) (“**Yingkou Bank**”) as security for bank acceptance bills issued by Huachen, Brilliance Power and Huayixin, respectively (the “**Bank Acceptance Bills**”).

Pursuant to an interview conducted by RSM with Mr. Ren, Mr. Ren explained that Huayixin was a customer of Huachen and had accounts payables to Huachen, while Brilliance Power had accounts due to Huayixin at the material time. Due to shortages in funds, Huayixin did not have sufficient funds to settle its outstanding payables with Huachen and Brilliance Power did not have sufficient funds to settle its outstanding payables with Huayixin. To facilitate Huachen, Huayixin and Brilliance Power to obtain temporary funding from banks to settle their respective outstanding payables through the Bank Acceptance Bills, Mr. Ren and the capital management department of Huachen negotiated with various banks, where the banks suggested SJAI to provide the Deposit Pledges as security for the Bank Acceptance Bills.

At the end of 2019, Mr. Ren reported the banks' suggestions to Ms. Ma, who then sought instructions from Mr. Liu, Mr. LiuT and Mr. Gao at the presidents business meeting of Huachen in late 2019 (the “**2019 Huachen President Meeting**”). According to the interview conducted with Mr. Du, he was also invited to participate in the 2019 Huachen President Meeting, where he was instructed to cooperate with the capital management department of Huachen to facilitate SJAI in providing the Deposit Pledges. There were, however, no written record of the contents of the discussions at the 2019 Huachen President Meeting nor list of attendees at the 2019 Huachen President Meeting. Following the approval of the Deposit Pledges at the 2019 Huachen President Meeting, Ms. Ma instructed Mr. Ren to proceed with the Deposit Pledges.

On 16th July, 2020, Mr. Du left his positions as financial controller of Xing Yuan Dong and SJAI and Mr. Wang was appointed to such positions. According to an interview with Mr. Wang, RSM was informed that SJAI had not established a filing system for its contracts in relation to the Deposit Pledges. Following the discovery of the Additional Issues as announced in the announcement of the Company dated 14th April, 2021, Mr. Wang prepared a summary of the Deposit Pledges (the “**Deposit Pledges Summary**”) based on the available agreements documenting the Deposit Pledges provided by SJAI and documents relating to the structured deposits and term deposits held by SJAI with Shengjing Bank, Minsheng Bank and Yingkou Bank.

To ascertain the completeness and accuracy of the information set out in the Deposit Pledges Summary, RSM issued confirmation request letters to Shengjing Bank (Shenyang Branch Business Department), Shengjing Bank (Yaming Branch), Shengjing Bank (Wanquan Branch), Shengjing Bank (Dongling Branch), Minsheng Bank and Yingkou Bank to seek confirmations on the Deposit Pledges for the year ended 31st December, 2020 and the four months ended 30th April, 2021. Save for certain inconsistencies in terms of the dates, contract number or pledge amount at different periods of time clarified by Shengjing Bank (Yaming Branch) and Shengjing Bank (Shenyang Branch Business Department), each of the other banks had replied confirming the information set out in the confirmation request letters.

As Huachen, Brilliance Power and Huayixin did not have sufficient funds to repay their respective Bank Acceptance Bills at its maturity, the relevant banks deducted certain amount of cash deposits of SJAI secured under the Deposit Pledges.

According to Mr. Du, he was informed by Ms. Meng that some of the structured deposits of SJAI deposited with Shengjing Bank have already matured but have not been transferred back to SJAI's current savings account (the “**Shengjing Bank Issue**”). Mr. Du then notified Mr. Ren by phone and was informed by Mr. Ren that he will follow up with Shengjing Bank on the matter, but neither Mr. Du nor Mr. Ren had further communicated on the progress of the matter. Mr. Du left his positions in Xing Yuan Dong and SJAI in mid-July 2020 and was replaced by Mr. Wang. According to Mr. Du, during the handover, he did not mention the Shengjing Bank Issue to Mr. Wang.

According to interviews with Ms. Ma and Mr. Wang, they were not aware of the Shengjing Bank Issue nor the deduction of deposits by Shengjing Bank (Shenyang Branch Business Department), Shengjing Bank (Yaming Branch), Shengjing Bank (Wanquan Branch), Shengjing Bank (Dongling Branch), Minsheng Bank and Yingkou Bank until the Auditors raised issues with the Company and they were instructed by the Board to investigate into the reasons for the discrepancies between the actual deposits of SJAI with Shengjing Bank and the amounts recorded in the management accounts of SJAI. Upon enquiring with Shengjing Bank and banks where SJAI held structured deposits and term deposits, including Minsheng Bank and Yingkou Bank, the Company learned that the structured deposits and term deposits deposited by SJAI with the relevant banks had been transferred to the internal bank accounts by the banks and eventually deducted by the relevant banks.

Based on the Deposit Pledges Summary, RSM reviewed the structured deposits and term deposits account opening documents provided by Shengjing Bank, Minsheng Bank and Yingkou Bank, documents documenting the transfer of the structured deposits and term deposits to the internal bank accounts, and documents documenting the deduction of the structured deposits and term deposits by the relevant banks, etc., to verify the flow of the structured deposits and term deposits deposited by SJAI with Shengjing Bank, Minsheng Bank and Yingkou Bank.

Set out below is a summary of the Deposit Pledges deducted by banks or transferred out of SJAI for the year ended 31st December, 2020:

Creditor bank	Holder of the Bank Acceptance Bills	Structured deposits/term deposits deducted by the bank due to the failure in repayment of the Bank Acceptance Bills (RMB)	After the structured deposits/term deposits were transferred to the current savings account of SJAI, amount transferred by SJAI to the holder of the Bank Acceptance Bills to make the repayment (RMB)	Amount of deposit outflow (RMB)	Accounting records
Shengjing Bank (Shenyang Branch Business Department)	Huayixin	1,320,000,000 (Note 1)	50,000,000 (Note 2)	1,370,000,000	recorded as other receivable due from Huayixin in the revised 2020 management accounts of SJAI

Creditor bank	Holder of the Bank Acceptance Bills	Structured deposits/term deposits deducted by the bank due to the failure of the Bank Acceptance Bills (RMB)	After the structured deposits/term deposits were transferred to the current savings account of SJAI, amount transferred by SJAI to the holder of the Bank Acceptance Bills to make the repayment (RMB)	Amount of deposit outflow (RMB)	Accounting records
Shengjing Bank (Yaming Branch)	Huayixin	230,000,000 (Note 3)	400,000,000 (Note 4)	630,000,000	recorded as other receivable due from Huayixin in the revised 2020 management accounts of SJAI
	Brilliance Power	340,000,000 (Note 5)	–	340,000,000	recorded as other receivable due from Brilliance Power in the revised 2020 management accounts of SJAI
Shengjing Bank (Wanquan Branch)	Huayixin	260,000,000 (Note 6)	–	260,000,000	recorded as other receivable due from Huayixin in the revised 2020 management accounts of SJAI
Shengjing Bank (Dongling Branch)	Huayixin	40,000,000 (Note 7)	–	40,000,000	recorded as other receivable due from Huayixin in the revised 2020 management accounts of SJAI

Creditor bank	Holder of the Bank Acceptance Bills	Structured deposits/term deposits deducted by the bank due to the failure of the Bank Acceptance Bills (RMB)	After the structured deposits/term deposits were transferred to the current savings account of SJAI, amount transferred by SJAI to the holder of the Bank Acceptance Bills to make the repayment (RMB)	Amount of deposit outflow (RMB)	Accounting records
Yingkou Bank	Huayixin	–	300,000,000 (Note 8)	300,000,000	recorded as other receivable due from Huayixin in the revised 2020 management accounts of SJAI
	Huayixin	–	15,900,000 (Note 9)	15,900,000	recorded as other receivable due from Huayixin in the revised 2020 management accounts of SJAI
Total amount of deposit outflow		<u>2,190,000,000</u>	<u>765,900,000</u>	<u>2,955,900,000</u>	

Notes:

1. RMB1,320,000,000 was transferred from the bank account of SJA I to the internal bank account of Shengjing Bank (Shenyang Branch Business Department) on 10th July, 2020 and was deducted by the bank in batches during the period between 15th July to 23rd December, 2020 for repayment of the bank acceptance bill issued by Huayixin.
2. RMB50,000,000 was transferred by SJA I to Huayixin to provide funding for repayment of the bank acceptance bill issued by Huayixin.
3. RMB230,000,000 was transferred from the bank account of SJA I to the internal bank account of Shengjing Bank (Yaming Branch) on 10th July, 2020 and was deducted by the bank in batches during the period between 15th July to 11th December, 2020 for repayment of the bank acceptance bill issued by Huayixin.
4. RMB400,000,000 was transferred by SJA I to Huayixin to provide funding for repayment of the bank acceptance bill issued by Huayixin.
5. RMB340,000,000 was transferred from the bank account of SJA I to the internal bank account of Shengjing Bank (Yaming Branch) on 10th July, 2020 and was deducted by the bank in batches during the period between 15th July to 11th December, 2020 for repayment of the bank acceptance bill issued by Brilliance Power.
6. RMB260,000,000 was transferred from the bank account of SJA I to the internal bank account of Shengjing Bank (Wanquan Branch) on 10th July, 2020 and was deducted by the bank in batches on 15th July and 17th July, 2020 for repayment of the bank acceptance bill issued by Huayixin.
7. RMB40,000,000 was transferred from the bank account of SJA I to the internal bank account of Shengjing Bank (Dongling Branch) on 10th July, 2020 and was deducted by the bank on 15th July, 2020 for repayment of the bank acceptance bill issued by Huayixin.
8. RMB300,000,000 was transferred by SJA I to Huayixin to provide funding for repayment of the bank acceptance bill issued by Huayixin.
9. The RMB15,900,000 was the interest accrued from the term deposit of RMB300,000,000 deposited by SJA I with Yingkou Bank. The full amount of such interest was transferred by SJA I to Huayixin to provide funding for repayment of the bank acceptance bill issued by Huayixin.

Set out below is a summary of the Deposit Pledges deducted by banks for the four months ended 30th April, 2021:

Creditor bank	Holder of the Bank Acceptance Bills	Structured deposits/ term deposits deducted by the bank due to the failure in repayment of the Bank Acceptance Bills (RMB)	Accounting records
Shengjing Bank (Shenyang Branch Business Department)	Huayixin	350,000,000	This amount was deducted by Shengjing Bank (Shenyang Branch Business Department) in batches during the period between 11th June to 17th June, 2021, but due to the ongoing dispute between SJAI and Shengjing Bank (Shenyang Branch Business Department), this amount remains recorded in the management accounts of SJAI.
Shengjing Bank (Yaming Branch)	Brilliance Power	300,000,000	This amount was deducted by Shengjing Bank (Yaming Branch) in batches on 10th June and 11th June, 2021, but due to the ongoing dispute between SJAI and Shengjing Bank (Yaming Branch), this amount remains recorded in the management accounts of SJAI.
Minsheng Bank	Huachen	400,000,000	recorded as other receivable due from Huayixin in the management accounts of SJAI
Total amount of deposit outflow		<u>1,050,000,000</u>	

Up to 30th April, 2021, the total amount of deposits of SJA I that have been deducted by Shengjing Bank, Minsheng Bank and Yingkou Bank for the repayment of the Bank Acceptance Bills amounted to RMB3,240,000,000 and the total amount of deposits of SJA I that have been transferred by SJA I to Huayixin to provide funding for repayment of the Bank Acceptance Bills issued by Huayixin amounted to RMB765,900,000. As a result of the provision of the Deposit Pledges, SJA I has incurred a loss on deposits of RMB4,005,900,000 (comprised of Deposit Pledges in the amount of RMB3,990,000,000 and interest in the amount of RMB15,900,000 accrued from the term deposit of RMB300,000,000 deposited by SJA I with Yingkou Bank).

Based on the interviews with Huachen, Huayixin and Brilliance Power, no repayment plan has been discussed between SJA I and each of Huachen, Huayixin and Brilliance Power nor has any agreement been entered into between SJA I and each of Huachen, Huayixin and Brilliance Power relating to the provision of the Deposit Pledges.

3. Inconsistencies in bank statements

Background

During the 2020 annual audit, SJA I provided bank statements from certain banks to the Auditors (the “**First Bank Statements**”). During the Independent Investigation, RSM obtained bank statements for the period between 1st January, 2020 to 30th April, 2021 directly from the same banks (the “**Second Bank Statements**”) and identified certain inconsistencies between the First Bank Statements and the Second Bank Statements (the “**Bank Statements Inconsistencies**”).

Findings

Based on the review of the First Bank Statements and the Second Bank Statements, RSM has identified the following Bank Statements Inconsistencies and has issued confirmation request letters to the relevant banks to clarify the reasons for the inconsistencies:

Bank	Inconsistencies between the First Bank Statement and the Second Bank Statement	Reply from banks on reason for the Bank Statements Inconsistencies
Shengjing Bank (Shenyang Branch Business Department)	<ul style="list-style-type: none"> inconsistency in the opening and closing balances for December 2020 in December 2020, the Second Bank Statements recorded transfers between SJA and other companies, including Huayixin, Chenbao (Liaoning) Automobile Manufacturing Co., Ltd.* (晨寶(遼寧)汽車製造有限公司) (“Chenbao Auto”), a wholly owned subsidiary of Huayixin, Shenyang Huafa Auto Parts Technology Co., Ltd.* (瀋陽華發汽車零部件科技有限公司) (“Shenyang Huafa”), Shenyang Xinruixiang Enterprise Management Co., Ltd.* (瀋陽欣瑞祥企業管理有限公司), and Shenyang Tuoxin Asset Management Co., Ltd.* (瀋陽拓新資產管理有限公司) (“Shenyang Tuoxin Assets”). Such transfers were, however, not recorded in the First Bank Statements on 31st December, 2020, the First Bank Statements recorded deposits of RMB35,000,000 and RMB15,900,000 from the accounts of SJA at Bank of Communications Co., Ltd. (Shenyang Nanta Sub-branch) (交通銀行股份有限公司瀋陽南塔支行) (“Bank of Communications”) and Yingkou Bank, respectively. Such deposits were, however, not recorded in the Second Bank Statements 	<ul style="list-style-type: none"> the First Bank Statements were not provided by the bank

Bank	Inconsistencies between the First Bank Statement and the Second Bank Statement	Reply from banks on reason for the Bank Statements Inconsistencies
Shengjing Bank (Yaming Branch)	<ul style="list-style-type: none"> inconsistency between the opening balance of the Second Bank Statements for January 2020 and the closing balance of the bank statement for December 2019 that was provided by SJAI. The opening balance of the Second Bank Statements was RMB40,000,200, which was RMB2,775,000,000 less than the closing balance of RMB2,815,000,200 of the aforesaid December 2019 bank statement. inconsistency in the opening and closing balances for December 2020 	<ul style="list-style-type: none"> the Second Bank Statements are consistent with internal bank records whilst the First Bank Statements are inconsistent
Yingkou Bank	<ul style="list-style-type: none"> in the First Bank Statements, during December 2020, there were transfers to SJAI's bank account at Fuxin Bank Co., Ltd. (Shenyang Free Trade Zone Sub-branch) (阜新银行股份有限公司瀋陽自貿區支行) ("Fuxin Bank") and Shengjing Bank (Shenyang Branch Business Department) in the amount of RMB300,000,000 and RMB15,900,000 (total of RMB315,900,000), respectively. Such transfers were, however, modified as transfers to Huayixin in the amount of RMB105,300,000 and RMB210,600,000 (total of RMB315,900,000) on 18th December, 2020 and 21st December, 2020, respectively, in the Second Bank Statements 	<ul style="list-style-type: none"> No reply from the bank

Bank	Inconsistencies between the First Bank Statement and the Second Bank Statement	Reply from banks on reason for the Bank Statements Inconsistencies
Fuxin Bank	<ul style="list-style-type: none"> on 31st December, 2020, the First Bank Statements recorded a credit in the amount of RMB300,000,000 from SJAI's bank account at Yingkou Bank. Such transaction was modified as receipt of RMB300,000,000 from Shenyang Tuoxin Assets on 31st December, 2020 	<ul style="list-style-type: none"> No reply from bank
Bank of Communications	<ul style="list-style-type: none"> inconsistency in the opening balance for December 2020 the Second Bank Statements recorded the transfers between SJAI and other companies (including Huayixin and Chenbao Auto), but the transfers were not recorded in the First Bank Statements on 31st December, 2020, the First Bank Statements recorded a credit of RMB35,000,000 from SJAI's bank account at Shengjing Bank (Shenyang Branch Business Department). Such transaction was, however, not recorded in the Second Bank Statements 	<ul style="list-style-type: none"> the bank does not have power to make any amendments to transactions that have occurred
Shengjing Bank (Dongling Branch)	<ul style="list-style-type: none"> inconsistency in the closing balance for December 2020 	<ul style="list-style-type: none"> the First Bank Statements were not provided by the bank
Shengjing Bank (Wanquan Branch)	<ul style="list-style-type: none"> inconsistency in the closing balance for December 2020 	<ul style="list-style-type: none"> the year end closing balance of the First Bank Statements is inconsistent with bank record

RSM conducted telephone enquiries with employees of Shengjing Bank (Dongling Branch), Shengjing Bank (Shenyang Branch Business Department) and Shengjing Bank (Wanquan Branch) and was informed that in accordance with normal procedures of the bank, bank records cannot be amended and hence are unable to provide explanations for the inconsistencies. RSM has made enquiries with SJAI and on 21st October, 2021, it was provided with written explanation on how the First Bank Statements were obtained and the adjustments made to the management accounts of SJAI (the “**Written Explanation**”). The Written Explanation however does not provide an explanation for the two versions of the bank statements and the Bank Statements Inconsistencies.

RSM noted from the Independent Investigation that upon being notified by the Auditors of the Additional Issues in April 2021, during April and May 2021, Huachen instructed Mr. Du to assist Mr. Wang to make various adjustments to the management accounts of SJAI. According to an interview with Mr. Du and Mr. Wang, upon becoming aware of the Bank Statements Inconsistencies, Mr. Du confirmed the Bank Statements Inconsistencies with Mr. Wang and various personnel from the financial department of Xing Yuan Dong and made certain adjustments to the management accounts of SJAI in accordance with the Second Bank Statements. The adjustments were reviewed by Mr. Wang.

Based on the interview with Mr. Wang, RSM noted that the adjustments made to the management accounts of SJAI mainly involved deducting the transfer of structured deposits to the current savings account of SJAI that were not recorded in the Second Bank Statements, deducting receipt of funds that were not recorded in the Second Bank Statements, setting off certain amounts due from Xing Yuan Dong to Huayixin against certain amounts due from Huayixin to SJAI, refund of certain funds to Xing Yuan Dong, transfer of funds from SJAI to Huayixin or Chenbao Auto and transfer of funds from Shenyang Huafa, Huayixin or Chenbao Auto to SJAI. As SJAI is a holding company and does not have any business operations, such transfer and receipt of funds to and from Huayixin and Chenbao Auto are mainly to facilitate the approval of the Bank Acceptance Bills issued by Huayixin or to alleviate the shortage in funds of Huachen by providing funding to Huayixin and Chenbao Auto for their repayment to Huachen.

On 9th November, 2021, RSM received an updated version of the Written Explanation dated 8th November, 2021 (the “**Updated Written Explanation**”) from Ms. Zhao Yue (趙悦) (“**Ms. Zhao**”) on behalf of SJAI. Ms. Zhao does not currently hold any position within the Group but since the resignation of Mr. Wang on 6th November, 2021, she temporarily assists in handling the communication work during the transitional period. The Updated Written Explanation stated that upon obtaining the bank statements from various banks, it was noted that (i) there were discrepancies between the management accounts of SJAI and the bank statements obtained from Bank of Communications, Fuxin Bank and Yingkou Bank in relation to certain inflows and outflows between SJAI with Chenbao Auto and Huayixin etc., and (ii) there were discrepancies between the management accounts of SJAI and the bank statements obtained from Shengjing Bank (Shenyang Branch Business Department), Shengjing Bank (Yaming Branch), Shengjing Bank (Wanquan Branch), Shengjing Bank (Dongling Branch) in relation to bank balances as a result of the deduction of the structured deposits by the banks. Upon noticing such discrepancies, Mr. Wang reported to Mr. Du and concealed such inconsistent transactions from the bank statements to align it with the management accounts of SJAI.

Based on an interview with Mr. Wang on 9th November, 2021, Mr. Wang confessed that following discussion with Mr. Du, they agreed to make adjustments to the bank statements and the adjustments to the First Bank Statements for the month of December 2020 were made by Mr. Wang. Mr. Wang is however not aware of the discrepancies in the bank statements for the month of January 2020.

Mr. Du also confirmed with RSM that following discussion with Mr. Wang, Mr. Wang made adjustments to the First Bank Statements for the month of December 2020. In addition, Mr. Du also confessed that he had made adjustments to at least one bank statement in relation to the opening balance for the month of January 2020 or the 2020 accounts such that the information set out in the bank statements was consistent with the management accounts of SJAI.

4. Corporate governance and internal control deficiencies identified by RSM

RSM identified the following corporate governance and internal control weaknesses during the Independent Investigation:

- (i) there are no clear independent structure and reporting procedures between the Company and Huachen. Certain members of the management of the Group companies also concurrently hold positions in Huachen but there are no formal approval processes for personnel appointments. During the period between June 2019 and July 2020, there were a number of personnel changes in Huachen, the Company and Xing Yuan Dong, for instance Mr. Wang, Mr. Du, Mr. Sun and Ms. Ma concurrently served various positions in these companies, and no assessments have been performed on the possible conflicts that may result from the simultaneous appointment of management personnel to various positions between Huachen and the Group;
- (ii) there may be a lack of independence when performing duties due to the overlapping roles of certain members of the management of the Group with their roles at Huachen, and their wrongful belief that the Group is subordinate to the management of Huachen. Certain personnel of Huachen were able to bypass the Company and directly instruct management of SJAI to execute a series of transactions. SJAI's participation in the provision of the Unauthorized Guarantees and the Deposit Pledges were controlled directly by Huachen;
- (iii) certain members of the management of the Group who concurrently hold positions with Huachen are able to access confidential information of both the Group and Huachen, such as bank deposit balances, loan status, and liquidity of assets etc. and are therefore able to exploit the financial resources of the Group;
- (iv) Mr. Yan, Mr. Sun, Ms. Ma and Mr. Wang failed to inform the other directors of the Company and the Auditors of the Unauthorized Guarantees and the legal proceedings initiated by China Everbright Bank in a timely manner, and therefore was unable to make an informed decision as to whether or not it is necessary to inform the shareholders of the Company and the Stock Exchange;

- (v) no formal corporate seal management system and application process has been established. The corporate seal was applied by certain management of SJAI without the approval of Mr. Wu Xiao An (also known as Mr. Ng Siu On) (the legal representative of SJAI), and the custodian of the corporate seal lent the seal without checking the approval record of the use of the corporate seal and its supporting documents. Following the use of the corporate seal, no written record was established for the use of the corporate seal, resulting in incomplete record on the Unauthorized Guarantees and the Deposit Pledges;
- (vi) insufficient and inadequate measures in place for handover of positions, which led to failure in communication of the Unauthorized Guarantees and the Deposit Pledges to the new appointee and resulted in serious loss of information record;
- (vii) no filing system has been established for retention of agreements and contracts, resulting in incomplete records of the Unauthorized Guarantees and the Deposit Pledges. In addition, SJAI did not timely obtain full set of bank statements or bank slips from various banks as a measure to monitor the accuracy and completeness of its accounting records, which contributed to the loss of information in relation to the deduction of the Deposit Pledges by the banks; and
- (viii) insufficient security measures in place to safeguard the finance system of SJAI from access and modification by unauthorized person, which may lead to inaccurate financial data being entered into the system.

The above-mentioned corporate governance and internal control deficiencies were the major causes to the provision of the Unauthorized Guarantees and the Deposit Pledges by SJAI without the permission or authorisation of the legal representative of SJAI and the approval by the directors and shareholders of the Company. The management of the Company did not learn of the Unauthorized Guarantees and the Deposit Pledges in a timely manner and therefore was not able to provide complete and accurate accounting information to the Auditors.

5. Financial impact on the Group resulting from the Unauthorized Guarantees and the Deposit Pledges

Based on the Independent Investigation, the Group is anticipated to be exposed to the following impact on its financial position:

- (i) total guaranteed liability to Export-Import Bank, Huaxia Bank, Harbin Bank and China Everbright Bank in the aggregate amount of RMB3.7 billion pursuant to the Unauthorized Guarantees, of which three banks have already commenced the Legal Proceedings against the Group claiming an aggregate amount of RMB3.6 billion, including legal fees, penalties and/or interest accrued thereon; and
- (ii) a loss on deposits of RMB4,005,900,000 (comprised of Deposit Pledges in the amount of RMB3,990,000,000 and interest in the amount of RMB15,900,000 accrued from the term deposit of RMB300,000,000 deposited by SJAI with Yingkou Bank).

6. Limitation of the Independent Investigation

The findings in the Independent Investigation are primarily subject to the following limitations:

- (i) save for the interview with Bank of Communications, SJA I was unable to arrange interviews with other banks involved in the Unauthorized Guarantees and the Deposit Pledges and RSM could only rely on the interviews with the personnel of Huachen, the Company, SJA I and Xing Yuan Dong to understand the cause of the Unauthorized Guarantees and the Deposit Pledges;
- (ii) no reply from Export-Import Bank on the confirmation request letters issued by RSM; and
- (iii) RSM could not verify the accuracy and completeness of the information provided by the relevant interviewees due to the defects in the preservation of documents by SJA I and Xing Yuan Dong.

VIEWS OF THE BOARD AND THE INDEPENDENT BOARD COMMITTEE ON THE KEY FINDINGS OF THE INDEPENDENT INVESTIGATION REPORT

The Independent Board Committee has reviewed and accepted the key findings of the Independent Investigation Report, which covered the period from January 2020 to April 2021 as the information available at the time RSM was engaged indicated that the Unauthorized Guarantees, the Additional Issues and the matters leading to the legal proceedings took place during that period. Having considered that (i) Huachen has officially entered the bankruptcy restructuring procedure and all the creditors of Huachen should have already submitted their claims to the administrator of Huachen and/or brought legal proceedings against the Group to enforce their rights, if any; and (ii) save for the Unauthorized Guarantees and the Additional Issues, the Group has not been notified of any other transactions involving Huachen and the Group not previously known to the Company, the Independent Board Committee considered that the scope of the Independent Investigation is adequate. The Board shared the views of the Independent Board Committee towards the findings and scope of the Independent Investigation Report.

The findings of the Independent Investigation revealed concerns in the Company's corporate governance and internal control system in areas including control over the Group's corporate seal, segregation of duties, record keeping and internal approval procedures and suggests that the vast number of employees of the Group who also concurrently hold positions in Huachen and report directly to Huachen was the major cause of the Unauthorized Guarantees and the Additional Issues as such employees have ignored the corporate governance measures and internal control procedures established by the Group.

In view of the above, the Independent Board Committee has made the following recommendations to the Board:

- (i) to implement the rectification recommendations to be provided by the Internal Control Consultant as soon as possible to address all internal control deficiencies identified;
- (ii) engage legal counsels to opine on the possible legal actions that may be initiated against Huachen, Brilliance Power and Huayixin for the recovery of the Group's losses as a result of the Unauthorized Guarantees and the Deposit Pledges; and
- (iii) consider and impose possible disciplinary actions against the relevant personnel of the Group involved in the provision of the Unauthorized Guarantees and the Deposit Pledges.

The Board agreed with the recommendations of the Independent Board Committee and has resolved that the recommendations of the Independent Board Committee be implemented as soon as practicable. As at the date of this announcement, the Group has undertaken the following remedial actions:

- (i) as announced by the Company on 29th October, 2021, the Company has engaged Moore Advisory Services Limited as the internal control consultant of the Company to carry out the Internal Control Review. The Internal Control Review is currently ongoing. Subject to the recommendations of the internal control consultant, more control measures are expected to be adopted to complement the transitional internal control measures in place and to address the issues and findings from the Independent Investigation. The Company will announce the key findings of the Internal Control Review together with the implementation by the Group of the recommended remedial measures in due course;
- (ii) has engaged legal counsel to defend the legal proceedings in respect of the Unauthorized Guarantees; and
- (iii) has engaged legal counsel to examine the legality of the Deposit Pledges and to advise on the chance of recovery of the Deposit Pledges.

IMPACT ON THE GROUP'S BUSINESS OPERATIONS AND FINANCIAL POSITIONS

The Board (including the Independent Board Committee) noted the impact of the Unauthorized Guarantees and the Deposit Pledges on the financial position of the Group as set out in the Independent Investigation Report and is in the process of seeking advice from legal advisers on the status of the Legal Proceedings and from Auditors to assess the impact on the financial position of the Group.

The Board (including the Independent Board Committee) and is of the view that the findings identified in the Independent Investigation Report do not impose a material adverse impact on the business operation of the Group. The Group will continue to review its existing businesses from time to time and make further announcement as and when appropriate.

The Auditors has resumed preparing the audit of the Group's consolidated financial statements for the year ended 31st December, 2020 and the Company estimates that the audit will be completed by the end of December 2021.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 31st March, 2021, and will remain suspended until further notice pending fulfillment of the Resumption Guidance.

Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.

By order of the Board
Brilliance China Automotive Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong, 16th November, 2021

As at the date of this announcement, the Board comprises four executive directors of the Company, Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman), Mr. Shen Tie Dong (Chief Executive Officer), Mr. Zhang Wei and Mr. Sun Baowei; and three independent non-executive directors of the Company, Mr. Song Jian, Mr. Jiang Bo and Mr. Dong Yang.