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潤東汽車

China Rundong Auto Group Limited

中國潤東汽車集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1365)

ANNOUNCEMENT ON LITIGATIONS INVOLVING THE SUBSIDIARIES OF THE COMPANY

This announcement is made by China Rundong Auto Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

I. UPDATE ON LITIGATION STATUS AND FREEZING ORDERS IMPOSED AGAINST RUNDONG AUTOMOBILE

As set out in the 2019 annual report of the Company and the interim results announcement of the Company dated 31 August 2020 (the “**Interim Results Announcement**”), certain suppliers, banks, institutions and employees of the Company have demanded payment for overdue amounts through commencing legal proceedings against certain subsidiaries of the Group in the People’s Republic of China (the “**PRC Subsidiaries**”). The purpose of this announcement is to keep the shareholders and potential investors of the Company informed of the status of the legal proceedings that the Group is involved for the time being.

As of 30 June 2020, there were (i) approximately 549 ongoing legal proceedings; (ii) approximately 173 concluded legal proceedings with judgments in the amount of approximately RMB251,359,000 in aggregate granted by the courts in the People’s Republic of China (the “**PRC Court**”).

It has come to the attention of the board of the directors of the Company that certain freezing orders has been imposed on Rundong Automobile Group Co., Ltd. (“**Rundong Automobile**”). To the best knowledge of the Company and based on the online searches recently conducted by the Company, as of 11 September 2020, there were in total 153 freezing orders¹ (the “**Freezing Orders**”) imposed on Rundong Automobile as the target shareholder over its equity interest (the “**Frozen Interests**”) in 49 PRC Subsidiaries and one company in which Rundong Automobile holds approximately 15.0% equity interest (the “**Subject Entities**”), which is currently subsisting and not discharged. To the best knowledge of the Company and based on the online search record, the Freezing Orders has been imposed on Rundong Automobile in respect of 24 pre-litigation dispute, ongoing and concluded legal proceedings as well as court enforcement.

As advised by the PRC legal advisers to the Company, the legal consequences with respect to a freezing order enforced against a shareholder (the “**Target Shareholder**”) over the equity interest of a subject company being frozen are as follows:

(1) Legal impact on the Target Shareholder

- (a) during the period when the frozen interests are subject to the freezing order, the Target Shareholder is restricted from the transfer or pledge the frozen interests without permission from the court;
- (b) any dividends or distribution attributed to the frozen interests held by the Target Shareholder shall be frozen by the court as well. In the event the subject company distributes any dividends or distribution to the Target Shareholder, the court can request the subject company to transfer such dividends under the custody of the court for future enforcement; and
- (c) if the Target Shareholder subject to the freezing order is unable to perform its obligations under enforcement process, the court may force sell the frozen interests and apply the proceeds from the forced sale to pay off the debt.

(2) Legal impact on the Subject Company

- (a) the subject company shall not register any transfer of the frozen interests for the Target Shareholder, and shall not distribute any dividends or distribution to the Target Shareholder;

¹ Out of the 153 freezing orders identified, the Company noted that there was one mistaken record with purported freezing order enforced against Rundong Automobile over an unrelated company where the Rundong Automobile has no equity interest.

- (b) during the enforcement process, the court may require appraisal and assessment of the value of the frozen interests held by the Target Shareholder. The subject company shall provide the court with its financial information such as accounting statements for the purpose of value assessment. The court may take compulsory measures to obtain such information if the subject company refuses to provide; and
- (c) during the enforcement process, the court may force sell the frozen interests held by the Target Shareholder. As a result of the forced sale, there may occur a change in the shareholding structure or even a change of control of the subject company. The transferee(s) of the frozen interest as the new controlling shareholder(s) of the subject company may change the company's management structure and business operations.

As advised by the PRC legal advisers to the Company, during the period when the frozen interests held by the Target Shareholder are subject to the freezing order, the Target Shareholder is restricted by the court to deal with/dispose of or receive income from the frozen interests, however the Target Shareholder shall retain its management right over the subject company as a shareholder and can continue to exercise its shareholder's voting right to decide on any shareholders' resolutions in relation to material corporate matters according to the articles of association of the subject company, including but not limited to the appointment or change of the directors and supervisors.

II. IMPACT OF THE FREEZING ORDERS TO THE GROUP AND RISK WARNING

As disclosed in the Interim Results Announcement, with respect to the Group's legal proceedings, based on the Company's current knowledge and management estimation, the Group recorded a liability provision in the amount of RMB272,020,000 (unaudited) as at 30 June 2020 when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. However, the eventual outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

Based on the advice from the PRC legal advisers to the Company, the Company believes that the Freezing Orders enforced against Rundong Automobile over the Frozen Interests of the Subject Entities will not bring direct material adverse impact to the Group's business operations during the period when such equity interests are frozen by the court, as Rundong Automobile will continue to enjoy its management right over the subject company as a shareholder.

For the financial year ended 31 December 2019, the aggregate revenue and loss attributed to the Subject Entities were approximately RMB3,589,354,000 and RMB2,413,778,000, respectively, representing approximately 47.0% and 41.3% of the total revenue and loss of the Group for the year. As at 30 June 2020, the net liabilities of the Subject Entities amounted to approximately RMB756,069,000 while the Group was in an overall net liability position amounted to approximately of RMB4,022,520,000.

The Company, as a holding company incorporated in the Cayman Islands, may from time to time rely on dividends and other distributions on equity paid by its PRC Subsidiaries for its cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to its shareholders or to service debt. The Freezing Orders may restrict the ability of Rundong Automobile to receive dividends or other distributions from the Subject Entities, which could in turn limit the Company to pay dividends to its shareholders and investors, or affect the funding and conduct of its business. However, given the fact that the Group is currently in tight liquidity position, and the Subject Entities are in loss-making with net liability position, the Board expects that neither the Company nor the Subject Entities would declare or pay any dividends or distribution in the near future. In addition, the Company currently does not have any intention to sell or dispose of its interests in the Subject Entities.

In the event the court were to implement a forced sale over the Frozen Interests, this would have led to a change in shareholding structure in or even a loss of control over the Subject Entities. The Company is in the course of conducting further investigation into and verification of the nature and status of underlying disputes or legal proceedings. Upon further review, the Company will further discuss with its legal advice to explore the available course of action, including but not limited to seeking the court to discharge the Freezing Orders if possible.

The Company will continue to monitor the status of legal proceedings and evaluate impact of the litigation and the potential financial impact and make provision and seek further legal advice as appropriate in connection with the above. The Company will disclose further developments and progress on the above matters by way of further announcement(s) in a timely manner in accordance with regulatory requirements.

The shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By Order of the Board
China Rundong Auto Group Limited
Yang Peng
Chairman

Shanghai, the People's Republic of China, 13 September 2020

As at the date of this announcement, the executive director of the Company is Mr. Yang Peng; and the independent non-executive directors are Mr. Mei Jianping, Mr. Lee Conway Kong Wai, Mr. Xiao Zhengsan and Mr. Li Xin.