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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)**

**UPDATE ANNOUNCEMENT  
IN RELATION TO THE BANKRUPTCY AND RESTRUCTURING  
APPLICATION AGAINST A PRC SUBSIDIARY OF THE COMPANY**

Reference is made to (i) the announcement of the Company dated 24 August 2020 in relation to the application for bankruptcy and restructuring (the “**Restructuring Application**”) against Rundong Automobile Group Co., Ltd. (“**Rundong Automobile**”); (ii) the announcement of the Company dated 28 December 2020 in relation to the Court’s ruling on acceptance of the Restructuring Application; and (iii) the announcement of the Company dated 14 January 2021 in relation to the appointment of the Manager by the Court in relation to the Restructuring Application (the “**Announcements**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the Announcements.

The Board would like to provide updates on the Restructuring Application as follows:

**(A) MODES OF MANAGEMENT AND CONTROL DURING THE RESTRUCTURING PERIOD**

According to the Enterprise Bankruptcy Law of the People’s Republic of China (企業破產法) (the “**Enterprise Bankruptcy Law**”), there are two management modes available for the debtor under the Enterprise Bankruptcy Law as follows:

**Manager-management mode**

Under the Manager-management mode, the Manager can take over the property and management of the debtor during the restructuring period. The Manager shall perform, among others, the following duties:

- (i) take over the debtor’s property, seals, account books, documents;

- (ii) investigate into the financial position of the debtor and prepare a report on its financial position;
- (iii) decide on the internal management of the debtor;
- (iv) decide on the day-to-day expenses and other necessary expenditures of the debtor;
- (v) ahead of the first creditors' meeting, decide on whether to continue or suspend the debtor's business operation;
- (vi) manage and dispose of property of the debtor;
- (vii) participate in the legal actions, arbitrations or any legal proceedings on behalf of the debtor;
- (viii) convene the creditors' meeting(s); and
- (ix) perform other duties as the Court deems appropriate.

#### **Debtor self-management mode**

During the restructuring period, instead of the Manager-management mode, the debtor may apply for the debtor self-management mode and manage the property and business operations on its own subject to certain restrictions prescribed by the laws. Upon approval granted by the Court, the debtor may exercise the functions and powers of a manager prescribed under the Enterprise Bankruptcy Law. In addition, the debtor and its responsible personnel shall have the following obligations:

- (i) properly preserve the property, seals, account books, documents which are in its possession and management;
- (ii) work in accordance with the instruction from the Court and the Manager, and truthfully answer their inquiries;
- (iii) attend the creditors' meeting(s) and truthfully answer the inquiries from the creditors;
- (iv) remain at the domicile unless otherwise permitted by the Court; and
- (v) refrain from taking up any new position as director, supervisor or senior manager of another enterprise.

On 13 January 2021, taking consideration in keeping the going concern of business and day-to-day operation affairs of Rundong Automobile unaffected as much as possible, Rundong Automobile submitted the application for the debtor self-management to the Court. Rundong

Automobile received the decision from the Court on 26 January 2021. According to the decision, the Court has allowed Rundong Automobile to operate under the debtor-self management mode, and Rundong Automobile may exercise the functions and powers of the Manager as specified under the Enterprise Bankruptcy Law forthwith until further direction. Subject to the restrictions set forth below, Rundong Automobile has decision-making power over its business operation in general.

Rundong Automobile shall not carry out any actions which are in contravention of or otherwise prohibited by the Enterprise Bankruptcy Law, and the Manager shall supervise Rundong Automobile to ensure that no such action is taken. The Company understands that the restrictions are mainly related to the actions which may lead to loss of assets or prejudice over the interests of creditors including the following:

- (i) transferring of the immovables rights and interests such as land and houses;
- (ii) transferring of the property rights such as mining rights and intellectual property rights;
- (iii) transferring of inventory or business operation;
- (iv) borrowing of money;
- (v) creating of security over property;
- (vi) transferring of claims and securities;
- (vii) fulfilling of any obligations by the debtor and the other party for subsisting contracts;
- (viii) waiver of rights;
- (ix) withdrawal of a pledge; and
- (x) other acts for disposing of the property that has a material impact on the creditor's interests.

If any of the aforementioned restricted actions has been taken by Rundong Automobile, it shall report to the Manager and the creditors' committee in a prompt manner. The Manager shall have the right to apply to the Court to invalidate and revoke Rundong Automobile's actions.

**(B) NO MATERIAL IMPACT TO THE COMPANY'S FINANCIAL POSITION AND BUSINESS OPERATION AFTER THE DESIGNATION OF THE MANAGER**

To the best knowledge of the Directors, the Company understands that under the situation where the Court allows Rundong Automobile's operation under the debtor self-management mode, the financial results of Rundong Automobile and its subsidiaries may continue to be consolidated

into those of the Group under the relevant accounting treatment. The Company is in the course of discussion and confirming with its auditors on the accounting treatment and will update the Shareholders by way of announcement for any further updates as and when required under the Listing Rules.

After the Court had accepted the Restructuring Application, all creditors shall thereafter file civil suits to the Court only, and all preservative measures against Rundong Automobile's property shall be released and all enforcement procedures shall be terminated.

As of the date of this announcement, the Group is only aware of one bankruptcy and restructuring application filed against Rundong Automobile, a platform company principally engaged in investment holding which holds equity interests of various operating subsidiaries of the Group. Accordingly, only Rundong Automobile itself has become the subject of the restructuring judicial process and its property and business operations shall be managed in accordance with the Enterprise Bankruptcy Law. As none of the operating subsidiaries of Rundong Automobile (the "**Subsidiaries**") was named as a defendant in the restructuring application, the ruling made by the Court does not cover the Subsidiaries. To the best knowledge of the Company after discussing with the Manager, the Manager will exercise its duties and power under the Enterprise Bankruptcy Law over Rundong Automobile and its Shanghai branch but not the Subsidiaries. Given that the Court has allowed the debtor-self management mode, it is expected Rundong Automobile can continue to exercise its shareholder's right over the Subsidiaries subject to the restriction and supervision as set out above. As at the date of the announcement, the business operation of the Group's 4S stores by the Subsidiaries is not affected and continues to be operated by the Group on its own as usual. The Company intends to maintain the stability of its employees and continue its operation on the existing basis as much as possible.

As disclosed in the announcements of the Company dated 13 September 2020 and 3 November 2020, the Group is in tight liquidity position with net liability. Considering that Rundong Automobile is in an insolvent state and is facing a number of lawsuits, Rundong Automobile agreed to the restructuring and considers that it is in the best interest of the Company and its stakeholders as a whole. The purpose of the restructuring is for Rundong Automobile and creditors to renegotiate and trade out the delinquent debts through a court-administered plan. Through settlement with the creditors, the restructuring aims to resolve the cash flow problems and financial distress of Rundong Automobile with a view to restore its liquidity, reshape its capital structures and resume continuous and viable operations.

During the restructuring period, Rundong Automobile will cooperate with the Court and the Manager and use its best efforts to reach a consensus with the creditors in formulating a restructuring proposal/solution acceptable to all stakeholders after balancing their legitimate rights and interests, and it will duly perform all its legal obligations under the law. Further announcement will be made by the Company as and when required under the Listing Rules to update the Shareholders and potential investors on the development of the Restructuring Application.

**Shareholders and potential investors of the Company 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, 11 February 2021

*As at the date of this announcement, the executive Directors are Mr. Yang Peng and Mr. Pei Yuanhe; and the independent non-executive Directors are Mr. Mei Jianping, Mr. Chow Ming Sang, Mr. Xiao Zhengsan and Mr. Li Xin.*