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NEW FOCUS AUTO TECH HOLDINGS LIMITED

新焦點汽車技術控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 360)

INSIDE INFORMATION LITIGATION INVOLVING A WHOLLY-OWNED SUBSIDIARY

This announcement is made by New Focus Auto Tech Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 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).

Inner Mongolia Chuangying Automobile Co., Ltd. (“**Inner Mongolia Chuangying**”), a wholly-owned subsidiary of the Company, has been served with a summons as one of the defendants and is required to attend a court hearing in a lawsuit filed by Chifeng Lifeng Vehicle Store Co., Ltd.* (赤峰市利豐汽車行有限公司, “**Chifeng Lifeng**”) as the plaintiff. According to the industrial and commercial registration, Inner Mongolia Chuangying holds 45.5% equity interest in Chifeng Lifeng, but the Company has never been involved in any way in the operation and management of Chifeng Lifeng, nor recognized such equity interest as an asset of the Group (the “**Nominal Interest**”), and the financial results of Chifeng Lifeng have never been consolidated into the financial statements of the Group. On 7 February 2021, Inner Mongolia Chuangying entered into a guarantee agreement with Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司, “**Lifeng Dingsheng**”), a former shareholder of Chifeng Lifeng, expressly set out that the beneficial owner of the Nominal Interest was Lifeng Dingsheng, and the Nominal Interest should be used to secure the repayment of all debts owed by Lifeng Dingsheng to Inner Mongolia Chuangying.

As at the date of this announcement, the date of the court hearing has not yet been fixed. Chifeng Lifeng alleged that Inner Mongolia Chuangying had breached twelve equity transfer agreements (collectively, the “**Equity Transfer Agreements**”) entered into between them by failing to pay the equity transfer consideration of RMB5,191,960 under one of the Equity Transfer Agreements and the equity transfer consideration of RMB34,200,000 in aggregate under the remaining eleven Equity Transfer Agreements. The claims of Chifeng Lifeng against Inner Mongolia Chuangying are as follows:

- (1) request before the court for a ruling that Inner Mongolia Chuangying shall pay the equity transfer consideration of RMB39,391,960 and compensate Chifeng Lifeng for losses it incurred due to the overdue payment (calculated based on 1.5 times of the one-year loan market quoted rate (LPR) published by the National Interbank Funding Center authorized by the People’s Bank of China until the actual payment date);
- (2) request before the court for a ruling that Inner Mongolia Chuangying and the other defendant shall be liable for the repayment obligation on a joint and several basis; and
- (3) request before the court for a ruling that Inner Mongolia Chuangying and the other defendant shall bear all costs including the litigation costs, the preservation fees, legal fees and others.

The purpose of five of those Equity Transfer Agreements was for the implementation of the acquisition (the “**Acquisition**”) and restructuring (the “**Restructuring**”) as defined in the circular of the Company dated 24 August 2018 (the “**Circular**”) so as to carry out the update of the industrial and commercial registration of those five Operating Companies (as defined in the Circular), to be then transferred to Inner Mongolia Chuangying. The remaining seven Equity Transfer Agreements were for the purpose of carrying out the update of the industrial and commercial registration of those seven operating companies (the “**Seven Operating Companies**”) not falling within the scope of the Acquisition and Restructuring (the “**Equity Transfers of the Seven Operating Companies**”). The abovementioned Equity Transfers of the Seven Operating Companies was arranged by Mr. DU Jinglei (the former executive director (“**Director**”) and chairman of the board of Directors (“**Board**”) of the Company, who resigned as the executive Director and chairman of the Board on 1 July 2019) without authorisation and approval from the Board. The Company has not recognised the equity interests of the Seven Operating Companies as assets of the Group, and has never been involved in the operation and management of the Seven Operating Companies in any form, while the financial results of the Seven Operating Companies had never been consolidated into the financial statements of the Group. The management of the Group has tried to communicate with relevant parties to resolve the issues relating to the Equity Transfers of the Seven Operating Companies, but such attempts have been in vain.

The management of the Group conducted internal investigations and discussions on the above litigation and had several verbal communications with the Group's external lawyers (the "**External Lawyers**"). The Company learned that the transfer of equity interest in the above twelve operating companies were part of an asset swap (the "**Asset Swap**") undertaken by the vendor of the Acquisition (namely Lifeng Dingsheng), Chifeng Lifeng and other relevant parties, and the Asset Swap has been substantially completed. One of the arrangements for the Asset Swap was that Chifeng Lifeng transferred its equity interest held in those twelve operating companies to Inner Mongolia Chuangying. It was agreed that the consideration for such transfers should be nominal only, which shall all belong to Inner Mongolia Chuangying. Prior to the filing of the lawsuit by Chifeng Lifeng, the External Lawyers had represented Lifeng Dingsheng to sue the relevant parties involved in the Asset Swap and the court has already handed down its judgement (the "**Previous Judgement**"). Based on the facts that the above Asset Swap arrangement was recognized by the court in the Previous Judgment, the External Lawyers believe that the principal amount of the possible contingent liabilities that may result from the above litigation to the Group is RMB5,191,960 (the equity transfer consideration for one operating company), mainly attributable to the inconsistencies between the contents of the agreement used for the industrial and commercial registration of the equity transfer of that operating company and the agreement relating to the Asset Swap. The External Lawyers believe that it is unlikely for the court to support Chifeng Lifeng's claim for the equity transfer consideration of RMB34,200,000 for those remaining eleven operating companies, mainly because the contents of agreements used for the industrial and commercial registration of the equity transfer of the eleven operating companies were basically consistent with the agreement relating to the Asset Swap. The management of the Company believes that even if the court makes an unfavourable judgement against Inner Mongolia Chuangying in the above lawsuit, Inner Mongolia Chuangying may negotiate with Chifeng Lifeng and other parties to utilise part of the Nominal Interest to execute the possible unfavourable judgement (such as transferring part of the Nominal Interest to other shareholders of Chifeng Lifeng) so as to avoid any adverse impact on the Group's financial position. In addition, if Inner Mongolia Chuangying assumes debts due to the above litigation, Inner Mongolia Chuangying shall claim against Lifeng Dingsheng according to the guarantee agreement, and the Nominal Interest will be used to guarantee such compensation by Lifeng Dingsheng.

Inner Mongolia Chuangying will actively respond to the above lawsuit. Due to the ongoing litigation and the uncertainty regarding the implementation and execution of the post-trial rulings, the impact on the Company's current or subsequent financial position is uncertain. The Company will make further announcement(s) in a timely manner if there is any progress of the litigation to keep its shareholders and potential investors informed of any significant development as and when appropriate.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
New Focus Auto Tech Holdings Limited
Tong Fei
Acting Chairman and Executive Director

Hong Kong, 19 June 2023

As at the date of this announcement, the Directors are: executive Director – TONG Fei; and independent non-executive Directors – LI Qingwen, HUANG Bo and ZHANG Kaizhi.

* *For identification purposes only*