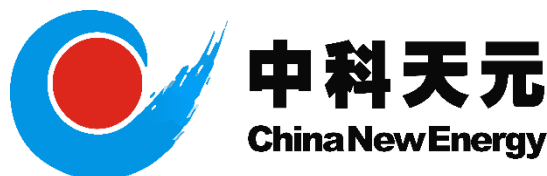


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China New Energy Limited

(Incorporated in Jersey, Channel Islands with limited liability and carrying on business in Hong Kong as "Zhongke Tianyuan New Energy Limited")

(Stock Code: 1156)

(1) KEY FINDINGS OF THE INDEPENDENT INVESTIGATION AND (2) CONTINUED SUSPENSION OF TRADING

This announcement is made by China New Energy Limited (the "**Company**"), together with its subsidiaries, the "**Group**") pursuant to Rules 13.09 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements (the "**Announcements**") of the Company (i) dated 23 March 2021, 31 March 2021, 13 April 2021, 7 May 2021, 30 June 2021, 8 September 2021, 30 September 2021 and 31 December 2021 in relation to, amongst other matters, the delay in publication of the final results of the Group for the year ended 31 December 2020, the delay in publication of the interim results of the Group for the six months ended 30 June 2021 and the suspension of trading of its shares. Unless otherwise defined, capitalised terms in this announcement shall have the same meanings as those defined in the Announcements.

As disclosed in the announcements of the Company dated 31 March 2021 and 30 June 2021, during the course of auditing the consolidated financial statements of the Group for the year ended 31 December 2020 (the "**2020 Consolidated Financial Statements**"), PricewaterhouseCoopers, the Company's previous auditors, raised concerns ("**Audit Issues**") over the payments of a total of not less than HK\$21,995,000 to various service providers ("**Service Providers**") for various professional and consultancy services ("**Concerned Transactions**").

On 13 April 2021, the Board resolved to form an independent investigation committee (the "**Independent Investigation Committee**") comprising of Mr. Richard Antony Bennett, Mr. Chan Shing Fat Heron and Mr. Chan Siu Shan Sam, to commission an independent investigation into the Audit Issues (the "**Independent Investigation**").

On 31 May 2021, the Independent Investigation Committee appointed Messrs. DLA Piper Hong Kong (“**DLA**”) to conduct the Independent Investigation, and prepare an investigation report in respect of the Audit Issues.

On 17 January 2022, the Company and the Independent Investigation Committee received an independent investigation report dated 17 January 2022 issued by DLA (the “**Independent Investigation Report**”). The Company would like to update its Shareholders and set out the key findings of the Independent Investigation Report in this announcement.

KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

Investigation Methodology

During the course of the Independent Investigation, DLA adopted, including but not limited to, the following procedures below:

- (1) Examining and assessing the documents gathered and obtained from the Company and/or the Service Providers, including but not limited to the relevant agreements between the Company and the Service Providers, the Company’s procedures or policies on service procurement and vendor selection, and correspondence between the Company and Service Providers;
- (2) Conducting company searches and/or background searches on the Service Providers;
- (3) Appointing an independent third party which is accustomed to the financial industry in Hong Kong, to conduct a market research on the market rates for the kind of professional and consultancy services provided by some of the Service Providers (“**Market Research**”); and
- (4) Conducting interviews or making written enquiries with the relevant personnel of the Company and the Service Providers.

In light of the Audit Issues, DLA has made the following key findings in the Independent Investigation Report:

(a) Details of background of the Service Providers

DLA finds the backgrounds and credentials of DLS, FAG and IJL correspond with the services purported to be provided by them to the Company. In particular, for FAG they were not involved in the Company’s global offer of its shares listed on the main board of the Hong Kong Stock Exchange on 15 July 2020 (“**Global Offering**”) and were only engaged after the Global Offering. As to IJL, they were engaged again after the Global Offering to provide the same services. Based on DLA’s findings, apart from business relationships, DLA does not find any other relationship between DLS, FAG, IJL and the Company which would draw their independence into question.

DLA finds the backgrounds and credentials of Mr. Cai, JCK and D&J provide supporting evidence with the services purported to be provided by them to the Company. Apart from business relationships and the fact that Mr. Cai actually owned JCK, DLA does not find any other relationship between Mr. Cai, JCK, D&J and the Company which would

draw their independence into question.

The Independent Investigation reveals that the engagement with Mr. Cai was because of his strong personal connections and success in the PRC. Mr. Cai is the founder of a company listed on the Shenzhen Stock Exchange. Mr. Yu Weijun, the chairman of the Company (“Mr. Yu”), believed that Mr. Cai was able to bring business opportunities to the Company, such as facilitating acquisition of relevant corporations outside the PRC (e.g. North America). The Company placed heavy reliance on Mr. Yu’s understanding of Mr. Cai and that the personal connections of Mr. Cai cannot be easily compared and contrasted with other candidates. On top of that, Mr. Cai was also a prominent engineer who took part in various projects that were of national standard.

The engagement with JCK was mainly for the purpose of acquiring a Canadian Company and was requested by Mr. Cai since he owned JCK, and Mr. Cai explained that it was necessary to engage an advisor to assist with structuring the deal, negotiating with counter-parties, and to conduct due diligence etc. in Hong Kong, so that JCK being a Hong Kong company under Mr. Cai’s control would be suitable for a cross-border acquisition. DLA finds such arrangement reasonable given that it provides more manpower and resources which would boost the efficiency of the work performed. Even though Mr. Cai controlled JCK, this would not affect the reasonableness of the arrangement since the Company would engage them in any event.

As for the engagement of D&J, the Company believes that it could play an advisory role to guide them through and break into the Indian market to seek further business opportunities. According to the result of due diligence conducted on D&J, D&J is a player of trade business with India and is very familiar with the South East Asian market.

(b) Commercial substance and business rationale for engaging the Service Providers to provide such services shortly after the Global Offering;

DLA finds that the services provided by DLS, FAG and IJL to the Company were services which Mr. Yu, already contemplated during the Global Offering and desired to seek after upon completion of the Global Offering. The commercial substance and business rationale for such engagements, in essence, is that Mr. Yu was minded to continue exploring opportunity after the Global Offering for the purpose of raising further capital from the market. In such regard, apart from engaging DLS who possesses technical knowledge on corporate finance and could therefore provide advice in such regard to the Company, FAG and IJL were also engaged to take care of matters concerning publicity of the Company. While the services provided by the said service providers might appear to be overlap and might have some duplications, at the time of each of the engagement they were in fact intended for a different scope of service to be provided to the Company.

As for the services provided by Mr. Cai and JCK, the Company contemplated expansion as the next step following its Global offering. With this view in mind, the management of the Company considered M&A as a viable option of business development of which rich connections and professional advice are inevitably necessary. The Company, through

Mr. Yu, hoped that by establishing a business relationship with Mr. Cai, it would be able to tap into his wealth of contacts to find more business opportunities for the Company, while JCK could assist in acquiring a Canadian potential target company as a step to tap into the North American market.

The acquisition of the Canadian potential target company was in line with the Company's plan of expansion into the North American market. The Canadian potential target company could be a showcase of the Company's abilities in building ethanol production systems and attract more business opportunities. Also, it was anticipated that the Canadian potential target company could help boost the Company's profile in the North American market given its listing status in Canada.

On the other hand, D&J could help with expanding business in the other parts of Asia. It was hoped that D&J could procure sales of HK\$200 million in India. If so, this would be a good deal for the Company to expand its business while only spending HK\$4,725,000 to engage D&J.

(c) Details in respect of the Group's service procurement and vendor selection procedures, internal controls and approval procedures conducted, as well as procedures to follow up on progress and service delivery;

DLA's findings reveal that the Company does not have any dedicated or general procurement procedures for services in written form. At present, the Company's internal control policies only concern contracts on purchase of raw materials, machinery, and other business related items, but not service procurement.

Nevertheless, the Company had apparently adopted some degree of internal controls in respect of due diligence, as due diligence were indeed conducted on the Service Providers prior to their engagements, by conducting and preparing background investigation reports, and by having telephone discussions with them to procure further information such as their backgrounds and credentials. The relevant personnel of the Company also confirmed they will rely on the information provided by the service provider for such purpose. The said actions taken by the Company demonstrate that there were some degree of internal controls relating to the requirement of due diligence on potential service providers.

There were written records and procedures (e.g. approval policies and board meetings) to record the approval of the engagements of the Service Providers, but they are procedural in nature and would not enable the Company to identify and evaluate suitable service provider candidates. The said approval procedures were also conducted in the absence of the independent non-executive directors of the Company who could have offered independent views for the Board's consideration.

In respect of the monitoring of services procured by the Company, once again the Company does not have any written dedicated and specific policy in this regard. As a result, there was no requirement or guideline as to how the Company should monitor or

follow up on the progress and service delivery provided by a service provider. The monitoring of services provided would therefore base entirely on the Company's own initiative and it is not impossible that written records in such regard might be neglected.

In summary, DLA's findings reveal that the Company does not have any dedicated written internal policies in respect of the said areas. Accordingly, DLA is of the view that the Company's internal controls in all the aforesaid aspects are inadequate and have room for improvement.

(d) Further details in respect of the services provided by the service providers

In the present case, DLA's findings reveal that while DLS, FAG and IJL did provide services to the Company, the amount in such regard did not seem to be substantial. The explanation in this regard, in essence, is that due to the COVID-19 pandemic which led to a poor economic and investment environment, the Company did not find it necessary for the aforesaid service providers to provide services to the Company proactively and on a frequent basis.

DLA finds the said explanation acceptable. DLA appreciates the fact that the COVID-19 pandemic has resulted in one of the worst economic recession in recent years. Therefore, it was reasonable for the Company to perceive that since the economic and investment environment was poor and would not appeal to investors, the Company would not require as much corporate finance and public relation advisory services as it would have anticipated under normal economic environment.

DLA also finds that DLS, FAG and IJL continued to be in amicable relationships with the Company and continued to provide services to the Company. In the cases of DLS and FAG, supplemental agreements were entered into with the Company to extend the period for providing services to the Company, without any additional fees charged. Overall, DLA does not see any information indicating any sign of ingenuity on the relationships between the Company and these service providers.

In respect of the engagements with Mr. Cai, JCK and D&J, there is no information suggesting that the transactions with the said parties were not genuine, or any indications of fraud in respect of the same.

(e) Whether the level of service fees and payment terms (especially regarding prepayment of entire contract sum) are comparable to market price and practices for similar services rendered by similar service providers

Based on the Market Research, it is revealed that while the monthly fees charged by DLS, FAG and IJL were above the average fee range for similar services in the market, they were still below the respective fees charged in the most expensive cases surveyed. In respect of payment terms, it is revealed that the arrangement of making a prepayment of the entire contract sum was not the most common market practice.

In DLA's view, the payment terms were reached on the basis of commercial negotiation, and on such ground DLA does not find that the current payment terms as agreed between the parties should warrant any suspicion on the genuineness of the transactions.

(f) Regarding payments to DLS, FAG and IJL, whether the payments represent listing expenses, if not, whether such payments to service providers are in accordance with the planned use of proceeds as described in the Prospectus

DLA finds that the service fees paid to DLS, FAG and IJL were made from the Company's internal financial resources, and does not represent listing expenses or net proceeds as described in the Company's prospectus for the Global Offering dated 30 June 2020 ("**Prospectus**"). In the circumstances, such internal financial resources utilized do not need to be used in accordance with the planned use of proceeds as described in the Prospectus.

Limitations of the Independent Investigation

DLA has tried its best reasonable efforts to locate the target interviewees and conduct all interviews that are possible to be carried out.

Nonetheless, some interviewees refused to attend any video conference with DLA, nor were they willing to do the interview through telephone call. DLA may have to rely on questionnaires which they believed were completed and sent by those parties.

View of the Independent Investigation Committee

The Independent Investigation Committee has reviewed the Independent Investigation Report and accepted the key findings of the Independent Investigation.

The Independent Investigation Committee has also considered the remedial actions suggested in the Independent Investigation Report, and recommends the Board to act on the following (the "**Recommendations**"):

- (1) To engage an independent third party with relevant internal control experience to conduct a comprehensive review of the Company's internal control policies, and consider to adopt appropriate remedial actions recommended by the reviewer thereafter; and
- (2) To either appoint an additional executive director who has the requisite compliance background or a compliance officer who is working at the headquarters of the Company, so that the senior management of the Company can have real time consultation with regards to regulatory compliance assistance and advice, including the proper procurement procedures for external services.

View of the Board

The Board has reviewed the Independent Investigation Report and accepted the key findings of the Independent Investigation.

The Board has also considered the Recommendations on remedial actions, and has resolved to implement the Recommendations forthwith.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2021, and will remain suspended until further notice.

The Company will publish further announcement(s) to keep the Company's shareholders and potential investors informed of the status and development of the Company as and when appropriate, as well as announce quarterly updates on its development pursuant to Rule 13.24A of the Listing Rules.

By Order of the Board
China New Energy Limited
YU Weijun
Chairman

Hong Kong, 28 January 2022

As at the date of this announcement, the Board comprises two executive directors, namely Mr. Yu Weijun and Mr. Tang Zhaoxing; and three independent non-executive directors, namely Mr. Richard Antony Bennett, Mr. Chan Shing Fat Heron and Mr. Chan Siu Shan Sam.