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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)

KEY FINDINGS AND RESULTS OF INTERNAL CONTROL REVIEW

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 (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 of the Company dated 17 October 2022, 30 March 2023, 31 March 2023, 21 April 2023, 24 April 2023, 19 June 2023, 9 August 2023 and 29 August 2023, and the circular of the Company dated 27 July 2023, in relation to, among others, (i) non-compliance with the disclosure and/or shareholder approval requirements relating to various loan transactions and change in use of proceeds from the Subscription (the “**Change in Use of Proceeds**”); (ii) the delay in publication of the audited annual results announcement for the year ended 31 December 2022 and the annual report for the year ended 31 December 2022; (iii) certain litigations relating to subsidiaries of the Group; and (iv) the appointment of the internal control adviser (collectively, the “**Documents**”).

Unless the context otherwise requires, capitalised terms used herein have the same meanings as those defined in the Documents.

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

As disclosed in the announcement of the Company dated 9 August 2023, the Company has appointed PRO-WIS Risk Advisory Services Limited (“**PRO-WIS**”) as its independent internal control adviser to conduct a review of the following internal controls of the Company and provide corresponding recommendations for rectification to the management of the Group (the “**Management**”) in order to improve the Group’s financial reporting procedures and internal control systems (the “**Internal Control Review**”).

The scope of the Internal Control Review includes the following issues and deficiencies:

- (i) the internal control system relating to the identification, reporting, approval and disclosure of notifiable transactions (in particular loan transactions) under Rules 13.13 to 13.15A and Chapter 14 of the Listing Rules by the Group;
- (ii) the internal control system relating to the timely financial reporting and disclosure process; and
- (iii) the internal control system relating to the monitoring, application and approval procedures for the use of proceeds from fundraising activities (including subscriptions).

From reviewing the internal controls of the Company and certain of its subsidiaries, namely New Focus Lighting and Power Technology (Shanghai) Co., Ltd. (紐福克斯光電科技(上海)有限公司), New Focus Lighting and Power Technology (Qingdao) Co., Ltd. (紐福克斯光電科技(青島)有限公司) (“**New Focus (Qingdao)**”), Shandong New Focus Longsheng Auto Parts Co. Ltd. (山東新焦點龍盛汽車配件有限公司), Ningbo Meishan Bonded Port Area Chifeng Investment Management Co., Ltd. (寧波梅山保稅港區馳豐投資管理有限公司) and Inner Mongolia Chuangying Auto Co., Ltd. (內蒙古創贏汽車有限公司), the key internal control findings identified by PRO-WIS throughout the Internal Control Review covering the period from 1 April 2022 to 31 March 2023, corresponding recommendations for rectification (the “**Rectification Recommendations**”), the Group’s response and the remediation status are summarised as follows:

Summary of Key Findings	Rectification Recommendations	Group's response and the remediation status
Major transactions		
<p>Inadequate internal control system and documentation records related to borrowings:</p> <p>(1) lack of pre-loan transaction due diligence written records;</p> <p>(2) no signing of formal agreement and/or cancellation agreement for certain loans;</p> <p>(3) lack of written records of contract approvals and payment approvals; and</p> <p>(4) lack of written meeting minutes.</p>	<p>The Group should establish the following internal control procedures:</p> <p>(1) personnel should be arranged to conduct pre-loan transaction due diligence to understand the borrower's operational and financial status, loan purpose, repayment ability, whether the borrower is a connected person etc., and document the assessment results;</p> <p>(2) an internal meeting should be held for each loan transaction, to review the content of the pre-loan transaction due diligence report and to discuss the terms of the loan. The results of the discussion should be recorded in the meeting minutes and signed by those who attended the discussion;</p> <p>(3) a loan contract should be signed for each loan, and the contract (together with the pre-loan transaction due diligence report and the signed meeting minutes as supporting documents) must be approved through the office automation ("OA") system before carrying out the loan transaction. The signed loan contract bearing a unique contract number should be kept by designated personnel and registered in the contract ledger for record purposes; and</p> <p>(4) the finance department should ensure all documents are complete, including but not limited to (i) the pre-loan transaction due diligence report, (ii) signed meeting minutes, (iii) signed loan contract, (iv) approval of the OA system, and (v) signed payment approval form before granting the loan.</p>	<p>The Management agreed with and accepted the recommendations.</p> <p>The Group has adopted and established the relevant internal control policies and procedures of the Group on 9 August 2023, and further revised the same on 30 August 2023 in accordance with the recommendations from PRO-WIS.</p> <p>The Group will conduct periodic reviews and prepare review reports every 6 months to ensure that the Rectification Recommendations have been effectively implemented to the extent applicable throughout the Group.</p>

Summary of Key Findings	Rectification Recommendations	Group's response and the remediation status
Notifiable transactions and advances to entities		
<p>New Focus (Qingdao) failed to (i) follow the Group's internal control procedures to submit the contracts to the chief financial officer and company secretary of the Group for approval; and (ii) establish its own internal control procedures for payment approvals and a regular reporting mechanism for major transactions or non-routine transactions.</p>	<p>New Focus (Qingdao) should follow the internal control procedures of the Group.</p> <p>For contract approvals related to non-routine business transactions or transactions exceeding a specified amount (e.g. RMB3 million), contracts should be submitted to the chief financial officer and company secretary of the Group for approval. In addition, the finance department of New Focus (Qingdao) should regularly submit its contract ledger to the finance department and company secretary of the Group for review.</p> <p>In order to strengthen its internal controls, payment approvals are required to be further submitted to the chief financial officer of the Group for review when the payment amount exceeds a specified amount (e.g. RMB3 million).</p> <p>The business department and finance department of New Focus (Qingdao) should contact the company secretary of the Group if there is a reason to suspect any transaction may be subject to the requirements of the Listing Rules. No contract shall be entered into nor shall any transaction be conducted unless feedback from the company secretary of the Group is received.</p>	<p>The Management agreed with and accepted the recommendations.</p> <p>The Group has circulated those rectification recommendations via email to the respective departments and personnel of each subsidiary on 28 August 2023.</p> <p>The Group will conduct periodic reviews and prepare review reports every 6 months to ensure that the Rectification Recommendations have been effectively implemented to the extent applicable throughout the Group.</p>

Summary of Key Findings	Rectification Recommendations	Group's response and the remediation status
Fundraising management process		
<p>Deficiencies in the management of proceeds from fundraising activities:</p> <p>(1) lack of written records on the agreed use of proceeds from the Subscription;</p> <p>(2) lack of regular reporting to the Board on the fund flow, use and balance of proceeds after the Subscription;</p> <p>(3) no formal Board meeting has been convened regarding the Change in Use of Proceeds; and</p> <p>(4) lack of fundraising management and reporting procedures.</p>	<p>The Group should set up proper management procedures related to fundraising activities, including but not limited to the following procedures:</p> <p>(1) conduct research and obtain approval before engaging in fundraising activities;</p> <p>(2) arrange a designated bank account for the deposit of proceeds from fundraising activities;</p> <p>(3) establish policies related to the application and approval of the use of proceeds from fundraising activities;</p> <p>(4) maintain a control list to record incoming and outgoing funds from fundraising activities;</p> <p>(5) monitor whether the use of proceeds from fundraising activities has been carried out as planned;</p> <p>(6) follow up and scrutinize the purpose of each payment made from the proceeds from fundraising activities;</p> <p>(7) establish policies related to the application and approval of changes in the use of proceeds; and</p> <p>(8) monitor and report the use and balance of proceeds from fundraising activities.</p>	<p>The Management agreed with and accepted the recommendation.</p> <p>The Group has established the management policy related to fundraising activities of the Group on 9 August 2023, and further revised the same on 30 August 2023 in accordance with the recommendations from PRO-WIS.</p> <p>The Group will conduct periodic reviews and prepare review reports every 6 months to ensure that the Rectification Recommendations have been effectively implemented to the extent applicable throughout the Group.</p>

Summary of Key Findings	Rectification Recommendations	Group's response and the remediation status
Financial recording and reporting procedures		
<p>Lack of a follow-up and reporting mechanism for the audit confirmations after their issuance.</p>	<p>The Group should liaise with the auditors to arrange for the delivery of audit confirmations to third parties as soon as possible.</p> <p>The Group should arrange designated personnel to record the daily progress of the receipt of correspondence and report to the management on a regular basis.</p> <p>The designated personnel from the finance department of the Group should record the daily progress of the audit process in the last month of the annual audit period.</p>	<p>The Management agreed with and accepted the recommendation.</p> <p>The Group has circulated those updated procedures to all financial personnel of each subsidiary via email on 28 August 2023 and the implementation of these procedures is expected to take place in December 2023.</p> <p>From December 2023 onwards, the Group will conduct daily communication with auditor and review from time to time on effectiveness to ensure that the Rectification Recommendations have been effectively implemented to the extent applicable throughout the Group.</p>
<p>New Focus (Qingdao) failed to report its financial data to the finance department of the Group on a monthly basis before the 10th of each month between October 2022 and March 2023.</p>	<p>New Focus (Qingdao) should regularly submit its financial statements to the finance department of the Group in a timely manner every month.</p>	<p>The finance department of New Focus (Qingdao) has been submitting its financial statements to the finance department of the Group via email on a monthly basis.</p> <p>The Group will conduct periodic reviews and prepare review reports every 6 months to ensure that the Rectification Recommendations have been effectively implemented by all subsidiaries of the Group, including but not limited to New Focus (Qingdao).</p>

Summary of Key Findings	Rectification Recommendations	Group's response and the remediation status
<p>Inconsistencies between the current internal control policies with the actual practice among the Group</p>	<p>The Group should re-examine the applicability of each internal control policy and decide if it should be updated. Furthermore, the Group should provide adequate training to its respective personnel.</p>	<p>The Management agreed with and accepted the recommendation.</p> <p>The Group has revised four internal control policies of the Group on 9 August 2023, and further revised the same on 30 August 2023, namely the Budget Management Policy (預算管理政策), Group Financial Control Framework over Subsidiaries (集團對子公司財務管控框架), Group Financial Management Policy (集團財務管理政策) and Intergroup Company Borrowing Management Practices (集團間公司借款管理辦法).</p> <p>The Group will conduct periodic reviews of each internal control policy and prepare review reports every 6 months to ensure that the abovementioned internal control policies have been effectively complied with to the extent applicable throughout the Group, and on an annual basis to determine whether any further updates shall be made to the abovementioned internal control policies. Furthermore, the Group will provide periodic training and prepare training attendance sheets on an annual basis to ensure relevant Group personnel's understanding of the applicability of the abovementioned internal control policies.</p>

Results of the Internal Control Review

The Internal Control Review and the follow-up review have been completed by PRO-WIS on 31 August 2023. As at the date of this announcement, the Group has (i) adopted and implemented the relevant Rectification Recommendations; and (ii) rectified the relevant deficiencies in the Group's internal control system. The Company believes that adequate internal controls and procedures have been put in place to comply with the Listing Rules. Based on the follow-up review result, PRO-WIS confirmed that the Company has adopted the Rectification Recommendations.

Opinions of the Audit Committee and the Board

Having considered the report of the Internal Control Review and the remediated actions taken by the Group, both the audit committee of the Company and the Board are of the view that the enhanced internal control measures implemented by the Company based on the Rectification Recommendations are adequate and sufficient to address the key findings of the report of the Internal Control Review. The Group will continue to implement the Rectification Recommendations on an ongoing basis so as to further strengthen its internal control system, to meet its obligations under the Listing Rules.

Further Internal Control Review

Due to shareholding irregularities arising from various transfers of equity interests involving the Group as disclosed in the announcements of the Company dated 19 June 2023 and 29 August 2023, the Company will further appoint PRO-WIS as its independent internal control adviser to conduct an additional internal control review (the "**2nd Internal Control Review**"), and make recommendations to improve and enhance, inter alia, the internal control systems of the Group relating to the transfer of equity interests, the provision of guarantees and indemnities, and seal management.

The 2nd Internal Control Review is expected to take place in mid-October 2023, and it is expected to be completed before the end of January 2024. An internal control review report will be issued by PRO-WIS upon the completion of the 2nd Internal Control Review, and the Company will disclose the following thereafter: (i) the major findings and recommendations; (ii) the Board's view towards such findings and recommendations; and (iii) whether any of the recommendations were implemented to enhance the internal control system of the Group.

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
New Focus Auto Tech Holdings Limited
Tong Fei
Acting Chairman and Executive Director

Hong Kong, 11 October 2023

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

* *For identification purpose only*