

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01250)**

## **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO DISCLOSEABLE TRANSACTIONS AND CONNECTED TRANSACTIONS**

References are made to the announcement of Shandong Hi-Speed New Energy Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) dated 25 May 2023 in relation to the discloseable transactions and connected transactions (the “**First Announcement**”), the supplemental announcements of the Company dated 4 December 2023 (the “**Second Announcement**”, together with the First Announcement, the “**Announcements**”), 1 February 2024 and 6 February 2024, respectively. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

This announcement sets out the key findings of the internal investigation and the latest internal control review report prepared by the IC Consultant (the “**IC Report**”).

### **KEY FINDINGS OF THE INTERNAL INVESTIGATION**

#### **I. Summary**

As stated in the First Announcement, the Group received the Demand Letter dated 16 March 2023 from a law firm in the PRC acting for the Vendors requesting Shangdong Hi-Speed Thermal Group Company Limited\* (山高熱力集團有限公司)(formerly known as BE Clean Heat Energy Company Limited\* (北控清潔熱力有限公司), “**Thermal Co**”) to perform its obligations under the Repurchase Agreements. The Repurchase Agreements relate to the repurchase of approximately 10.52%, 7.29%, 5.52%, 2.92%, 2.71% and 1.04% equity interests in Thermal Co from Vendor A, Vendor B, Vendor C, Vendor D, Vendor E and Vendor F, in the consideration of RMB45,500,000 plus certain interests amount, RMB45,540,000, RMB34,480,000, RMB18,220,000, RMB16,900,000 and RMB6,510,000, respectively.

The entering into of the Repurchase Agreements occurred prior to the completion of the subscription of shares in the Company by SDHG, and when SDHG became the controlling shareholder of the Company in May 2022, the Board was also re-elected, with the majority of the Board members resigned and new Board members formed the new session of the Board. After receiving the Demand Letter, the Group has conducted an internal investigation.

## **II. Scope of the internal investigation**

As stated in the Second Announcement, there were deficiencies in Thermal Co's internal control mechanism at the time of entering into the Repurchase Agreements, which resulted in the Company's failure to publish an announcement in relation to the discloseable transactions and connected transactions under the Repurchase Agreements in accordance with the Listing Rules in a timely manner, and the failure to obtain complete information on the transactions.

The scope of the internal investigation conducted by an investigation group of the Company (the "**Investigation Group**") covers: (A) details of the Repurchase Agreements and the reasons for conducting the Repurchases; (B) the validity and enforceability of the Repurchase Agreements; (C) the reasons for the entering into and execution of the Repurchase Agreements not being approved by the Board at the material time and the Repurchases not being timely disclosed through publishing announcement in accordance with the Listing Rules; and (D) implementation of the internal control policies on the execution of the Repurchase Agreements.

As disclosed in the Announcements, the existing Directors did not participate in the Repurchases when entering into the Repurchase Agreements. As a result, the internal investigation was conducted mainly through recovering the past documents and records as well as having interviews with the then Directors and relevant officers.

## **III. Key Findings**

### ***Details of the Repurchase Agreements and the reasons for conducting Repurchases***

As disclosed in the Second Announcement, although the existing Directors did not participate in the Repurchases when entering into the Repurchase Agreements, after reviewing the relevant documents and information available and considering (i) the total consideration of RMB171,632,500 under the Repurchase Agreements which was lower than 30% (equivalent to the aggregate percentage of the underlying sales equity under the Repurchase Agreements) of the appraised value of all the equity interests in Thermal Co of RMB618,100,000 as at 30 September 2021; (ii) the opinion provided by Ernst & Young (as the Reporting Accountant), confirming it had reviewed the arithmetical calculations of the Profit Forecast and confirmed that the Profit Forecast has been

properly compiled and the opinion provided by Opus Capital Limited (as the Financial Adviser), confirming that the Profit Forecast has been made after due and careful enquiry by the management of Thermal Co at the time of entering into the Repurchase Agreements; (iii) that the Repurchases will enable the Group to obtain all the economic interest from Thermal Co; and (iv) that the Group has obtained legal opinions from different PRC legal advisers, which all opined the Repurchase Agreements to be legally binding and enforceable, the existing Directors (including independent non-executive Directors) believe that, at the time of entering into the Repurchase Agreements, the Repurchases and the transactions contemplated thereunder, although not entered into in the ordinary course of business of the Group, were entered into on normal commercial or better terms, and the terms are fair, reasonable, and in the interests of the Company and Shareholders as a whole.

Based on the further information discovered in the internal investigation, further background information and the then reasons for entering into the Repurchase Agreements were discovered. In July 2020, Thermal Co approved (i) an entrustment arrangement where Thermal Co entrusted its operating and management rights, as well as the management rights related to its existing projects, to Shandong High Speed Renewable Energy Group Limited (“**803.SZ**”, formerly known as Sichuan Jinyu Automobile City (Group) Co., Ltd.) (a company listed on the main board of the Shenzhen Stock Exchange, stock code: 000803.SZ and an associate of the Company); and (ii) the intention of Shandong Hi-Speed Photovoltaic Power (an indirect wholly-owned subsidiary of the Company holding 70% equity interests in Thermal Co) and the minority shareholders (i.e. the Vendors) to negotiate with 803.SZ for the sale of all their equity interests in Thermal Co upon the satisfaction of certain conditions. In August and November 2021, the Company held certain meetings, in which the termination of the said entrust arrangement was approved, and a director who was also the general manager of Thermal Co (the “**Former Thermal GM**”) was authorised to take full responsibility for the relevant work after the termination of the agreement in relation to the entrustment arrangement (the “**Entrust Agreement**”). In March 2022, Thermal Co convened a meeting chaired by the Former Thermal GM, in which approved the repurchase of Vendor A’s equity interest in Thermal Co. In March 2022, the Former Thermal GM arranged for the following based on the past resolutions and authorizations: (i) a board meeting of Thermal Co to approve the repurchase of minority shareholders’ equity interests by Thermal Co in accordance with the asset appraisal report prepared by the Valuer and to pay the repurchase payment to Vendor A; and (ii) a shareholder meeting of Thermal Co to approve the repurchase of minority shareholders’ 30% equity and to sign relevant agreements and make prepayment of the shares repurchase to Vendor A and to make changes in company registration and amendments to the articles of association of Thermal Co. The Investigation Group found that the said board meeting and the shareholder meeting of Thermal Co were not physically held, and the board and shareholder resolutions were made by way of circulation for signature.

## *Vendor A*

As disclosed in the First Announcement, at the time of entering into Repurchase Agreement A, Vendor A was directly owned as to 60%, 20% and 20% partnership interest by Zhao Jianwei, Xu Jiaqi and Zhou Jianfeng, respectively, and all of them are former employees of Thermal Co. The general partner of Vendor A is Zhao Jianwei.

Based on the results of the internal investigation, the actual amount that Vendor A invested in Thermal Co was RMB45,500,000. The nature of Vendor A was actually an employee shareholding platform of Thermal Co, where the partnership interests held by Zhao Jianwei, Xu Jiaqi and Zhou Jianfeng were in fact held on behalf of certain then employees of Thermal Co (the “**Employee Investors**”). Based on the understanding of the Investigation Group, the Employee Investors did invest in Vendor A, which in turn invested in Thermal Co. After Vendor A completed investing in Thermal Co, from time to time some Employee Investors resigned and requested to get back their respective original investment in Vendor A. As a result, an aggregate amount of RMB29,450,000 were paid by the Group to Vendor A, Zhao Jianwei and certain Employee Investors, in which the aggregate amount of RMB24,000,000 was paid between March 2019 to May 2019 and the aggregate amount of RMB5,450,000 was paid during the period between August 2020 to October 2020 in multiple batches for the purpose of returning their original investment amounts in proportion to the repurchase of their equity interest in Thermal Co. Based on the understanding of the Company, the amount of RMB29,450,000 is equivalent to the original investment amount paid by such exited Employee Investors. According to the then articles of association of Thermal Co, the capital reduction required the approval of the shareholders’ meeting. However, the shareholders’ meeting had not been convened. Therefore, the filing of the capital reduction to the relevant authorities was not done.

As a result of the payment of RMB29,450,000, the aggregate remaining investment amount made by the other Employee Investors was RMB16,050,000. Based on the understanding of the Investigation Group, as the remaining Employee Investors did not have early exit and requested interest payment for their investment in Thermal Co, therefore in the Repurchase Agreement A, there was an interest payment where the interest rate on the portion of capital amount of RMB16,050,000 at the rate of 6.5% per annum for a period from the relevant capital injection date up to 28 February 2022.

## ***Validity and enforceability of the Repurchase Agreements***

The Group has obtained legal opinions from different PRC legal advisors, all of whom considered the Repurchase Agreements to be legally binding and enforceable.

***The reasons for not having approval from the Board at the material time on the entering into and execution of the Repurchase Agreements and the Repurchases not being disclosed by announcement at the material time in accordance with the Listing Rules***

The Former Thermal GM was substantially involved in the Repurchases. As a result, in addition to the then Directors, the Investigation Group also had an interview with the Former Thermal GM. The summary of the records is as follows:

- The Former Thermal GM believed that he was vested with the authorization to arrange for the board meeting and shareholders' meeting of Thermal Co for entering into the Repurchase Agreements and consideration prepaid to Vendor A, he was just carrying out the relevant work following the intention of the Company's management. Although the Former Thermal GM was a shareholder, director, and legal representative of Vendor D, Vendor D held less than 3% of the equity interest in Thermal Co without a significant influence on Thermal Co. Objectively, he admitted that he did not further confirm the authorization scope, reasonableness and compliance of the relevant meetings. The Former Thermal GM admitted that he did not have a full understanding of the disclosure requirements of the Listing Rules, and was not sure whether the Repurchases triggered the disclosure requirements under the Listing Rules. The Former Thermal GM was also unclear whether it was necessary to report to the then Directors before signing the Repurchase Agreements and to determine whether the publication of announcement was required before the Repurchase Agreements were executed. After the Repurchase Agreements were executed, SDHG became the controlling shareholder of the Company and there was a substantial change of the composition of the Board, and therefore the Former Thermal GM did not report the Repurchases and the execution of the Repurchase Agreements to the existing Directors.
- Other than the then three executive Directors, each of the then Directors expressed that he had no knowledge of the Repurchases and the Repurchase Agreements. The then three executive Directors expressed that they were aware of the intention for repurchasing the equity interests in Thermal Co from the minority shareholders (i.e. the Vendors), but they did not know the execution of the Repurchase Agreements. One of the then three executive Directors also expressed that his understanding was that the authorizations given to the Former Thermal GM related to the operations of Thermal Co after the termination of the Entrust Agreement, but there was no authorization given on the Repurchases.

Based on the results of the internal investigation, the main reasons for not having approval from the Board at the material time on the entering into and execution of the Repurchase Agreements and the Repurchases not being disclosed by announcement at the material time in accordance with the Listing Rules are as follows:

- (i) The Former Thermal GM did not timely report to the Board at the material time in accordance with the Company's internal policies as he considered himself had the authority given under the Executing Meeting to approve the Repurchases and the prepayment of the consideration to Vendor A through the board meeting and shareholders' meeting at the level of Thermal Co;
- (ii) The Former Thermal GM had a limited understanding of the disclosure requirements under the Listing Rules, and he was not aware of whether such transactions triggered the Listing Rules. The Former Thermal GM also did not realize that he needed to notify the Board at relevant time before signing the Repurchase Agreements to determine whether an announcement shall be made by the Company upon entering into and executing the Repurchase Agreements;
- (iii) The Former Thermal GM instructed his colleague to send the email relating to the notification of, inter alia, the Repurchase Agreements having been entered into (the "**Notification Email**") to the then four executive Directors at the material time, but the relevant staff member failed to forward the Notification Email to the then four executive Directors as she was on leave at that time. On the other hand, regarding the approval requirements for signing the Repurchase Agreements, the management of Thermal Co should obtain the relevant approval before the execution of the Repurchase Agreements pursuant to the delegated management policy, however, the Former Thermal GM did not comply with such policy for execution of the Repurchase Agreement. On the matter of publishing the announcement in relation to the Repurchase Agreements, the management of Thermal Co should have informed the company secretary of the Company or the then Directors in advance before signing of the Repurchase Agreements, and the company secretary of the Company or the then Directors should have commented on how to handle the announcement matters, instead of sending it to the Company's CEO's office. According to the division of responsibilities, the staff members of the CEO's office was not responsible for the Listing Rules compliance matters and do not have the ability to make judgments on announcement matters. The relevant matter should be reported to the Directors or company secretary of the Company, but not the CEO's office of the Company;

- (iv) Other than the then three executive Directors, each of the then Directors did not have knowledge of the Repurchases and the Repurchase Agreements. The then three executive Directors were aware of the intention for repurchasing the equity interest in Thermal Co from the Vendors, but they did not know the execution of the Repurchase Agreements; and
- (v) There were deficiencies in Thermal Co's internal control policy at the time of entering into the Repurchase Agreements.

***Implementation of the internal control policies on the execution of the Repurchase Agreements***

Thermal Co has internal control policies and procedures in place for approving the entering into of transactions similar to the Repurchase Agreements. These include the requirement to report to the Company's risk control legal department and the relevant senior management for review and approval, as well as obtaining approvals from the senior management of the finance department under the separate authorization management policy. Both the Company and Thermal Co have independent office automation approval systems.

The Company engaged the IC Consultant to identify the relevant deficiencies of the internal control mechanism on the execution of the Repurchase Agreements at the level of Thermal Co.

According to the IC Report, each identified internal control deficiency's risk level is classified as "low", "low to medium", "medium", "medium to high" and "high", depending on the likelihood and extent of the impact of the relevant findings as a result of the internal control system deficiencies.

**Low**

The likelihood and extent of the adverse impact of the relevant finding as a result of the internal control system weaknesses/deficiencies upon the business operations/resources utilization of the business unit(s) is relatively low at the moment; or the impact of the relevant finding as a result of the internal control system weaknesses/deficiencies of the business unit(s) upon the truth and fairness of the Group's financial statements is considered as not material as of reporting date. However, recommendation is still provided in order to improve effectiveness and/or efficiency of the overall internal control mechanism.

**Low to Medium**

The likelihood and extent of the adverse impact of the relevant finding as a result of the internal control system weaknesses/deficiencies upon the business operations/resources utilization of the business unit(s) is a bit low at the moment; or the impact of the relevant finding as a result of the internal control system weaknesses/deficiencies of the business unit(s) upon the truth and fairness of the Group's financial statements is considered as not potentially high as of reporting date. Accordingly, recommendation is provided in order to improve effectiveness and/or efficiency of the overall internal control mechanism.

**Medium**

The likelihood and extent of the adverse impact of the relevant finding as a result of the internal control system weaknesses/deficiencies upon the business operations/resources utilization of the business unit(s) reaches a level to which management attention needs to be paid as of reporting date; or the impact of the relevant finding as a result of the internal control system weaknesses/deficiencies of the business unit(s) upon the truth and fairness of the Group's financial statements is considered as potentially high as of reporting date. Thus, recommendation is provided as it is considered necessary for the business unit(s) to implement the recommendation for improving the overall internal control mechanism.

**Medium to High**

The likelihood and extent of the adverse impact of the relevant finding as a result of the internal control system weaknesses/deficiencies upon the business operations/resources utilization of the business unit(s) is a bit high at the moment; or the impact of the relevant finding as a result of the internal control system weaknesses/deficiencies of the business unit(s) upon the truth and fairness of the Group's financial statements is considered as a bit high as of reporting date. Accordingly, recommendation is provided as it is considered essential for the business unit(s) to implement the recommendation for improving the overall internal control mechanism.

**High**

The likelihood and extent of the adverse impact of the relevant finding as a result of the internal control system weaknesses/deficiencies upon the business operations/resources utilization of the business unit(s) is high as of reporting date; or the impact of the relevant finding as a result of the internal control system weaknesses/deficiencies of the business unit(s) upon the truth and fairness of the Group's financial statements is considered as relatively high as of reporting date. Hence, it is essential for the business unit(s) to take immediate action to redress the relevant internal control system weaknesses/deficiencies.

Under the IC Report, the following deficiencies of the internal control mechanism on the execution of the Repurchase Agreements at the level of Thermal Co were identified: (i) delayed disclosure of discloseable transactions and connected transaction; (ii) approval procedure of Repurchase Agreements not in accordance to the delegated management policy; (iii) policies and procedures of investment management to be enhanced; (iv) absence of upper limit of each approver set in regard to payment approval; (v) procedures of convening board meetings to be enhanced; (vi) procedures of convening shareholders' meetings to be enhanced; (vii) procedures of approval of Repurchase Agreements to be enhanced; and (viii) failure to complete the registration of the share transfer upon consideration of share repurchase being settled. The risk levels of the above deficiencies were classified as “medium to high”.

## **INTERNAL CONTROL REVIEW**

In addition to engaging the IC Consultant to identify the relevant deficiencies of the internal control mechanism on the execution of the Repurchase Agreements at the level of Thermal Co which are explained above, the IC Consultant also reviewed the internal control mechanism of the Group as a whole. The internal control review covered the selected subsidiaries, including a testing and assessment of the effectiveness of the procedures, systems and controls established by the Group of their major operational cycles, such as investment management cycle, treasury management (including cash management) cycle, connected person and connected transactions management cycle, as well as the overall corporate governance practice of the Group.

In the IC Report, except for the identified deficiencies of the internal control mechanism on the execution of the Repurchase Agreements at the level of Thermal Co, the risk level of the internal control findings related to the review on the Group (other than Thermal Co) are all classified as “low” or “low to medium”. No findings of “medium” or above risk level were identified. Furthermore, during the testing period of the first-phase internal control review, no other similar cases were identified apart from the First Announcement regarding discloseable transactions and connected transactions dated 25 May 2023.

## CONCLUSION

In view of the findings of the internal investigation and the IC Report, the Directors are of the view that, the incident of the Repurchases was mainly attributable to the internal control deficiencies of Thermal Co prior to the completion of the subscription of shares in the Company by SDHG, as well as the management personnel misconduct of Thermal Co.

Other than that, minor deficiencies were noted for the Group's internal controls over its major operation cycles and overall corporate governance practice, but the risks to the identified deficiencies are insignificant and remote.

## RECTIFICATION MEASURES

Pursuant to the recommendations for rectification (including but not limited to recommendations for rectification and enhancement of existing policy design and implementation procedures) made by the IC Consultant in the IC Report in respect of each of the internal control deficiencies identified during the internal control review, the Company will implement each of the recommendations to ensure that the internal control system of the Group will be improved completely and effectively and to prevent the recurrence of event similar to the Repurchases. The IC Consultant will conduct a internal control follow-up review within approximately six months after the date of the first-phase of the IC Report to ensure that all identified internal control deficiencies of the Group are rectified.

In addition, after discussions between the Group and the Former Thermal GM, the Former Thermal GM tendered his resignation with effect on 1 March 2024 and no longer has any position in Thermal Co and the Group. The Group will further rearrange the board structure of Thermal Co in this regard. The Group will also arrange trainings for the Directors and senior management of the Group on Listing Rules compliance and internal control to minimize the risks of having non-compliance incidents in the future.

By Order of the Board  
**Shandong Hi-Speed New Energy Group Limited**  
**Wang Xiaodong**  
*Chairman*

Hong Kong, 12 March 2024

*As at the date of this announcement, the Board comprises Mr. Wang Xiaodong, Mr. Zhu Jianbiao, Mr. Wang Wenbo, Mr. Sun Qingwei, Ms. Liao Jianrong, Mr. Li Li, Mr. He Yongbing and Mr. Wang Meng as executive Directors; and Professor Qin Si Zhao, Mr. Victor Huang, Mr. Yang Xiangliang and Mr. Chiu Kung Chik as independent non-executive Directors.*