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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 SECOND 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 19 June 2023, 29 August 2023 and 11 October 2023 (the “**Announcements**”), in relation to, among others, (i) litigation relating to transfer of equity interests of various companies; and (ii) the appointment of the internal control adviser.

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

### **KEY FINDINGS OF THE INTERNAL CONTROL REVIEW**

As disclosed in the announcement of the Company dated 11 October 2023, the Company has further appointed PRO-WIS Risk Advisory Services Limited (“**PRO-WIS**”) as its independent internal control adviser to conduct an additional internal control review (the “**2<sup>nd</sup> Internal Control Review**”) and make corresponding 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 pledged assets, and seal management.

The scope of the 2<sup>nd</sup> Internal Control Review includes the following:

- (i) the internal control system relating to the management of transfers of equity interests involving the Group; and
- (ii) the internal control system relating to the management system for the provision of guarantees and pledged assets, and seal management.

From reviewing the internal controls of the Group and certain subsidiaries of the Group, namely the Company, Inner Mongolia Chuangying Automobile Co., Ltd. (內蒙古創贏汽車有限公司) (“**Inner Mongolia Chuangying**”), Ningbo Meishan Bonded Port Area Lihe Financial Leasing Co., Ltd. (寧波梅山保稅港區利和融資租賃有限公司) (“**Ningbo Lihe**”), Qingdao New Microelectronics Technology Co. (青島紐微電子科技有限公司) (“**Qingdao New Microelectronics**”), New Focus Automobile Technology (Qingdao) Co., Ltd.\* (紐福克斯汽車技術(青島)有限公司) (“**Automobile Technology (Qingdao)**”), Qingdao New Focus Holding Co.\* (青島新焦點控股有限公司) (“**Qingdao New Focus**”) and Newtec Lighting and Power Technology Co., Ltd.\* (紐泰克光電科技有限公司) (“**Newtec**”), the key internal control findings identified by PRO-WIS throughout the 2<sup>nd</sup> Internal Control Review covering the period from 1 July 2022 to 30 June 2023, the corresponding recommendations for rectification (the “**Rectification Recommendations**”), the Group’s responses and the remedial status are summarised as follows:

Summary of Key Findings	Rectification Recommendations	Group’s responses and the remedial status
<b>Certain documents relating to transfers of equity interests could not be located</b>		
<p>The Group and Inner Mongolia Chuangying failed to keep documents properly, the missing documents included but not limited to the following:</p> <ul style="list-style-type: none"> <li>(i) Approval records for the transfer of equity interests;</li> <li>(ii) Certain signed original agreements and documents;</li> <li>(iii) Follow-up records for share transfers;</li> <li>(iv) Handover records with resigned employees; and</li> </ul>	<p>The Group should establish and maintain comprehensive document retention, backup system and handover procedures to ensure the proper retention of written records for each internal control procedure. Additionally, a handover mechanism should be implemented to facilitate the transfer of documents when an employee responsible for their custody departs. This will help avoid any issues or gaps in document retention.</p> <p>To effectively manage the storage of written documents, the Group should maintain a “File Management Index” that clearly identifies which written documents are kept by each subsidiary and their storage locations.</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 25 January 2024.</p> <p>However, PRO-WIS found out from a spot check that the Group has key internal control findings in relation to the approval of contracts, please see the section headed “Additional Findings of Internal Control” for details.</p>

<b>Summary of Key Findings</b>	<b>Rectification Recommendations</b>	<b>Group’s responses and the remedial status</b>
<p>(v) Escrow Agreement.</p> <p>The seal management at that time was unknown.</p>	<p>The Group should document and retain approval records from the Group’s Financial Controller and Company Secretary for non-routine business transactions or transactions exceeding a specified amount (e.g., RMB3 million). The signed contract, along with the relevant supporting documents should then be emailed to the Group’s designated personnel. That designated person should then store the electronic copies of these documents properly.</p> <p>Furthermore, the designated personnel in each subsidiary shall review the “File Management Index” on a quarterly basis to check if all relevant documents have been stored and retained properly.</p> <p>The File Management Index shall be submitted to the Group’s management for review on a half-yearly basis to monitor whether the relevant electronic copies for all non-routine business transactions and transactions exceeding a specified amount (e.g., RMB3 million) are received.</p>	

Summary of Key Findings	Rectification Recommendations	Group's responses and the remedial status
<b>Policies and procedures for transfer of equity interests has yet to maintain</b>		
<p>Failure to establish a written policies and procedures for transfer of equity interests.</p>	<p>The Group should establish a management system for equity transfer, including but not limited to the following procedures:</p> <ul style="list-style-type: none"> <li>• Preliminary due diligence review and negotiation;</li> <li>• Transaction pricing determination;</li> <li>• Approval of equity transfer contracts;</li> <li>• Assessment of Listing Rules implications;</li> <li>• Post-contractual management (e.g., obtaining approval for payment of equity transfer, updating business registration details, and ensuring regular reporting to the Board);</li> <li>• Documentation management;</li> <li>• Conflict of interests management; and</li> <li>• Segregation of duties.</li> </ul>	<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 25 January 2024.</p>

Summary of Key Findings	Rectification Recommendations	Group's responses and the remedial status
<b>Policies and procedures for the acceptance of guarantees and/or pledged assets has yet to maintain</b>		
<p>Failure to establish a written policies and procedures for the acceptance of guarantees and/or pledged assets.</p>	<p>The Group should establish a management system for the acceptance of guarantees and/or pledged assets, including but not limited to the following procedures:</p> <ul style="list-style-type: none"> <li>• Negotiation for acceptance of guarantees and/or pledged assets;</li> <li>• Valuation for acceptance of guarantees and/or pledged assets;</li> <li>• Approval of contracts;</li> <li>• Registration of ownership;</li> <li>• Assessment of Listing Rules implications;</li> <li>• Post-contractual management (e.g., regularly reassessing the valuation of pledged assets);</li> <li>• Exercise of rights under the contract of guarantees and/or pledged assets;</li> <li>• Management of guarantees and/or pledged assets summary;</li> <li>• Documentation management; and</li> <li>• Segregation of duties.</li> </ul>	<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 25 January 2024.</p>

Summary of Key Findings	Rectification Recommendations	Group's responses and the remedial status
<b>Deficiencies over seal management</b>		
<p>The current seal management policy fails to clearly specify the actual custody situation in the section of seal custody.</p>	<p>The seal management policy should be updated to state who is responsible for keeping the seal. The revised policy should be circulated and implemented after obtaining appropriate approval.</p>	<p>The Management agreed with and accepted the recommendations.</p> <p>The Group has adopted and further updated the seal management policy by listing the position of the custodian of each seal and stating that the seals must be kept by different personnel on 25 January 2024.</p>
<p>Financial seal and legal representative seal kept by the same personnel for Ningbo Lihe<sup>(Note)</sup>, Qingdao New Microelectronics, Automobile Technology (Qingdao), Qingdao New Focus and Newtec.</p>	<p>The Group should store the financial seal, company seal and legal representative seal in separate locations and the seals should be managed by different designated personnel.</p>	<p>The Management agreed with and accepted the recommendations.</p> <p>The Group has transferred the financial seal and legal representative seal of Ningbo Lihe to different designated personnel for safekeeping in separate locations.</p> <p>The Group has transferred the financial seals of Qingdao New Focus, Qingdao New Microelectronics, Automobile Technology (Qingdao) and Newtec to the new financial personnel for safekeeping.</p>

*Note: Ningbo Lihe has completed its tax deregistration in 2020, so the financial seal and the legal representative seal are being kept by one person. However, the deregistration procedure has not been completed yet, as the legal representative, Mr. Du Jinglei, was arrested and detained since July 2019 and then in jail since January 2021.*

## Additional Findings of Internal Control

Another new key internal control finding identified by PRO-WIS during the course of the follow-up review for the 2<sup>nd</sup> Internal Control Review, the corresponding recommendations for rectification (the “**Rectification Recommendations**”), the Group’s responses and the remedial status are summarised as follows:

Summary of Key Findings	Rectification Recommendations	Group’s responses and the remedial status
<b>Approval of contracts</b>		
<p>PRO-WIS conducted a spot check and found out in a case that one of the Group’s subsidiaries had established a joint venture in mid-January 2024 but had not reported to the Group’s Financial Controller or Company Secretary for approval prior to the establishment of the joint venture in accordance with the requirements for non-routine business transactions or transactions exceeding a specified amount (e.g., RMB3 million).</p> <p>As explained by the Management, it was due to the fact that the relevant colleagues regarded such transactions as routine business transactions.</p>	<p>The Group should strengthen the training on the internal control procedures (including approval of contracts) in respect of “non-routine transactions or transactions exceeding a specified amount (e.g., RMB3 million)”, and arrange training for the relevant colleagues in each subsidiary as soon as possible to ensure that they understand the corresponding internal control procedures clearly.</p> <p>In addition, if there are new relevant colleagues joining the subsidiaries, the subsidiaries should arrange the designated colleagues to explain to the new colleagues the internal control procedures for “non-routine transactions or transactions exceeding a specified amount (e.g., RMB3 million)”, ensuring that the new colleagues also understand the corresponding internal control procedures clearly.</p>	<p>Each of the Group’s subsidiaries will arrange relevant trainings and ensure that the newly recruited colleagues have a good understanding of the internal control procedures of the Group (including but not limited to the internal control system for transaction arrangements) at the same time.</p>

## Results of the 2<sup>nd</sup> Internal Control Review

The 2<sup>nd</sup> Internal Control Review and the follow-up review have been completed by PRO-WIS in late March 2024. 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 recommendations.

## **Opinions of the Audit Committee and the Board**

Having considered the report of the 2<sup>nd</sup> Internal Control Review and the remedial 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 2<sup>nd</sup> Internal Control Review. The Group will continue to implement the Rectification Recommendations on an ongoing basis so as to further strengthen its internal control systems relating to the transfer of equity interests, the provision of guarantees and pledged assets, and seal management.

**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**  
*Chairman and Executive Director*

Hong Kong, 8 April 2024

*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*