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## INNER MONGOLIA ENERGY ENGINEERING CO., LTD.

### 內蒙古能源建設投資股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 01649)

# QUARTERLY UPDATE ON RECENT DEVELOPMENT ON SUSPENSION OF TRADING AND RESULTS OF INTERNAL CONTROL REVIEW

This announcement is made by the board of directors (the “**Board**”) of Inner Mongolia Energy Engineering Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09(2)(a) and 13.24A of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

References are made to (i) the announcements of the Company dated 10 May 2019, 9 September 2019 and 8 April 2020 in relation to the resumption guidance set forth by the Stock Exchange; and (ii) the quarterly update announcements of the Company dated 14 June 2019, 13 September 2019, 13 December 2019, 13 March 2020 and 11 June 2020.

## RESUMPTION GUIDANCE

The Stock Exchange has set out, among others, the following resumption guidance for the Company (the “**Resumption Guidance**”) in April 2019, September 2019 and April 2020:

1. complete an appropriate independent investigation to address the audit issues identified by the Company's auditor, disclose the findings and take appropriate remedial actions (the “**Resumption Guidance 1**”);
2. publish all outstanding financial results required under the Listing Rules and address any audit modifications (the “**Resumption Guidance 2**”);
3. inform the market of all material information for the shareholders (the “**Shareholders**”) and investors to appraise the Company's position (the “**Resumption Guidance 3**”);

4. demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which will pose a risk to investors and damage market confidence before resumption (the “**Resumption Guidance 4**”);
5. conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules (the “**Resumption Guidance 5**”); and
6. demonstrate that all directors of the Company (the “**Directors**”) meet a standard of competence commensurate with their position as directors of a listed issuer to fulfill duties of skill, care and diligence as required under Rules 3.08 and 3.09 of the Listing Rules (the “**Resumption Guidance 6**”).

**RESUMPTION GUIDANCE 1 — complete an appropriate independent investigation to address the audit issues identified by the Company's auditor, disclose the findings and take appropriate remedial actions**

Trading in the shares of the Company has been suspended since 18 March 2019 pending publication of the 2018 annual results of the Company, the delay of which was primarily because additional time was required for the Company to address audit issues identified by its then auditor, Deloitte Touche Tohmatsu (“**Deloitte**”).

To address the audit issues identified by Deloitte and certain other issues identified by the Company during its self-inspection, the board of Directors and the audit committee of the Company (the “**Audit Committee**”) have engaged PricewaterhouseCoopers Management Consulting (Shanghai) Limited (“**PricewaterhouseCoopers**”) to conduct an independent third-party forensic review (the “**Forensic Review**”) on the Company and the following five subsidiaries, all being entities involved in the audit issues identified:

- (i) Inner Mongolia Power Construction Products Co., Ltd. (“**Power Construction Products**”);
- (ii) Inner Mongolia No. 1 Power Construction Project Co., Ltd. (“**No. 1 Power Construction**”);
- (iii) Inner Mongolia Energy Planning & Design Institute Co., Ltd. (“**Planning Institute**”);
- (iv) Inner Mongolia Power Survey & Design Institute Co., Ltd. (“**Design Institute**”); and
- (v) Inner Mongolia Power Construction International Engineering Construction Investment Co., Ltd. (“**International Engineering**”).

(collectively, the “**Five Subsidiaries**”)

The Forensic Review had been fully completed and a forensic review report had been issued by PricewaterhouseCoopers, further details of which were disclosed in the announcement of the Company dated 13 March 2020 (the “**Forensic Review Findings Announcement**”).

Reference is made to the announcement of the Company dated 11 June 2020. Having noted that PricewaterhouseCoopers encountered certain major limitations during their investigation (namely (i) inability to access to certain key management and third parties of the Company as they were under judicial investigations and criminal trials; and (ii) uncooperativeness of certain relevant bank personnel and personnel at counterparties mentioned in the review issues to be interviewed by PricewaterhouseCoopers), Deloitte stated that its concerns over the audit work have still not been satisfactorily addressed and hence resigned as the auditor of the Group with effect from 8 June 2020 (the “**Resignation of Auditor**”).

Nevertheless, the Audit Committee and the Board are of the view that the Company had used its best endeavor to meet Resumption Guidance 1 for the following reasons:

- (i) PricewaterhouseCoopers had put all efforts in conducting the Forensic Review, and the Forensic Review had comprehensively reviewed the then problems of the Company identified;
- (ii) the Company cooperated with PricewaterhouseCoopers in all aspects and without any restriction imposed, and offered complete, authentic and unreserved information and support, including but not limited to the problems found in the Company’s self-inspection and known to the relevant law enforcement departments;
- (iii) due regard shall be given to the practical limitations and difficulties that certain relevant personnel involved in or related to the audit issues identified were under trials that were yet to be concluded at the material time of the Forensic Investigation;
- (iv) the Company had enhanced corporate governance and internal control of the Company, including having defined 11 rectification areas and 28 rectification tasks, and had taken 60 specific measures focusing on risk investigation, promoting reforms through cases, rectification and implementation and system establishment, thus enhancing the internal management of the Group;
- (v) the Company had also engaged Moore Advisory Services Limited (the “**IC Consultant**”) to perform a detailed evaluation on the adequacy and effectiveness of the Group’s internal control systems and procedures (the “**IC Review**”), further details of which are set out in the section headed “RESUMPTION GUIDANCE 5 — conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules” in this announcement below; and
- (vi) to enhance its business development, the Company had terminated all suspicious businesses with an external individual and his related person(s), conducted a comprehensive investigation on the potentially problematic businesses, reformulated its long-term business strategy, re-strengthened the development strategy of its principal business, and divesting the coal trading and the general contracting business of earth-stone stripping which requires advances that may have significant operating risks.

In light of the above, the Directors are of the view that the Forensic Review is sufficient and effective to provide assistance to the Company to substantially rectify the relevant audit issues for the purpose of minimising the impact on the Group and to take preventive measures to enhance corporate governance and internal control system of the Group.

**RESUMPTION GUIDANCE 2 — publish all outstanding financial results required under the Listing Rules and address any audit modifications**

Pursuant to Rule 13.46(2), Rule 13.49(1), Rule 13.49(6) and Rule 13.48(1) of the Listing Rules, the Company was required to

- (i) publish the annual results announcements of the Company for the years ended 31 December 2018 (“**FY2018**”) and 31 December 2019 (“**FY2019**”) on or before 31 March 2019 and 31 March 2020, respectively;
- (ii) despatch the annual report of the Company for FY2018 and FY2019 to the Shareholders on or before 30 April 2019 and 30 April 2020, respectively;
- (iii) publish the interim results announcement of the Company for the six months ended 30 June 2019 and 30 June 2020 on or before 31 August 2019 and 31 August 2020, respectively; and
- (iv) despatch the interim report of the Company for the six months ended 30 June 2019 and 30 June 2020 to the Shareholders on or before 30 September 2019 and 30 September 2020, respectively.

In light of the Resignation of Auditor, the Company has been actively identifying a new auditor for the Group to fill the vacancy occasioned. Nevertheless, given the aforesaid issues and difficulties, the Company has not been able to engage any new auditor to fill the vacancy as at the date of this announcement.

As a best endeavour to keep the Shareholders and the public abreast of the financial position and performance of the Group, the Company had published its preliminary unaudited consolidated financial information (as extracted from the draft unaudited management accounts of the Group) for FY2018 on 13 May 2019. The Directors confirmed the preliminary unaudited consolidated financial information was prepared on the same basis as used in the audited consolidated financial statements of the Group for the financial year ended 31 December 2017.

Further announcement(s) will be made by the Company to provide updates to the Shareholders on the material development relating to publication of the outstanding results announcements and despatch of the outstanding annual reports and interim report(s) as and when appropriate.

Considering past practices, the Company shall submit the audited annual financial statements at the annual general meeting for consideration. Given that the auditing of the annual results for FY2018 and FY2019 could not be completed following the Resignation of Auditor, and to avoid imposing time and expense burdens on the Company and the Shareholders, the Company decides that the annual general meeting for 2019 will be postponed until publication of the audited annual results for FY2018 and FY2019.

## **RESUMPTION GUIDANCE 3 — inform the market of all material information for the Shareholders and investors to appraise the Company's position**

Since the suspension of trading in its shares, the Company has been keeping its Shareholders and potential investors informed of all material information to appraise the Company's position by way of announcements on the website of the Stock Exchange in accordance with the Listing Rules, including but not limited to market updates of all material information on a quarterly basis.

The Board would also like to provide the Shareholders and the public with the following updates on its business operations and development for the second quarter of 2020.

### **Construction Contracting:**

In the second quarter of 2020, as projects commence or resume work in succession and the market development efforts are further strengthened, the production and operation witnessed an increasing improvement and the completed business volume recorded a significant period-on-period growth as compared with the first quarter. In the second half of the year, the Company will fully consolidate its market presence of power grid in the western Inner Mongolia, increase the market development efforts targeting the State Grid Corporation and China Southern Power Grid Corporation, closely follow the progress of construction of the state power grid and proactively participate in the construction of the ultra-high voltage projects of the state power grid, focusing on developing the power transformation and transmission engineering market in the eastern Inner Mongolia, Xinjiang, Sichuan and Tibet regions, while expanding the power construction market through multiple channels.

### **Survey, Design and Consultancy Operation:**

In the second quarter of 2020, the completed business volume of the survey, design and consultancy operation recorded a period-on-period increase as compared with the first quarter. The Company will further accelerate the development of its core technologies and diversified sectors, mastering the cutting-edge technologies on design of modern power grid and large-scale coal-fired power unit, while expanding its diversified sectors such as information consulting and environmental monitoring.

### **Power Operation:**

In the second quarter of 2020, the new energy power stations of the Company ran normally.

### **Goods Trading Operation:**

The Company gave preference to its trade operation and chains and maintained appropriate efforts in development of trading operation in due course.

**RESUMPTION GUIDANCE 4 — demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which will pose a risk to investors and damage market confidence before resumption**



Based on the Forensic Review and the self-inspection of the Company, it was revealed that Mr. Lu Dangzhu (“**Mr. Lu**”) (the former chairman and executive Director of the Company) and Mr. Liu Ming (“**Mr. Liu**”) (the former executive director and legal representative of Power Construction Products) were the key relevant personnel of the Company extensively involved in the review issues as defined and set out in details in the Forensic Review Findings Announcement (the “**Review Issues**”).

Upon becoming aware that Mr. Lu was under investigation by the supervisory authority due to suspected serious duty crimes in February 2019, the Company had as soon as reasonably practicable designated Mr. Chao Ketu, the vice chairman of the Company, to temporarily perform the duties of Mr. Lu as the chairman of the Board with effect from 26 February 2019 to minimise the influence of Mr. Lu over the business, management and operations of the Group and to maintain market confidence.

As disclosed in the announcement of the Company dated 11 November 2019, a meeting of the Board was held, during which the Board considered and approved (i) the nomination of Mr. Niu Jirong (“**Mr. Niu**”) by Inner Mongolia Energy Engineering (Group) Co., Ltd. (a shareholder of the Company) as the new chairman and executive Director of the Company with effect from the date of the relevant nomination being approved at the 2018 annual general meeting of the Company (the “**2018 AGM**”); and (ii) approved the removal of Mr. Lu from the position of chairman and executive Director of the Company as well as members of the relevant committees of the Board with effect from the date on which the nomination of Mr. Niu was approved at the 2018 AGM.

As disclosed in the poll results announcement of the Company for the 2018 AGM dated 27 December 2019, Mr. Lu had been removed from the position of the chairman and executive Director of the Company as well as members of the relevant committees of the Board with effect from 27 December 2019.

In addition, Mr. Liu had been removed from the position of executive director and legal representative of Power Construction Products with effect from 12 July 2019.

To the best knowledge and belief of the current members of the Board having made reasonable enquiries, none of the current members of the Board and/or any other key person who may have substantial influence over the Company’s management and operations (i) were involved in the transactions relevant to the Review Issues; and/or (ii) has any familial, business or financial relationship with Mr. Lu or Mr. Liu.

As unveiled in the Forensic Review, one of the key features pertaining to the transactions relevant to the Review Issues was that Mr. Lu and Mr. Liu purposively circumvented the relevant internal control and approval procedures.

The current Directors were fully aware of the serious impact of the transactions relevant to the Review Issues to the Group and had immediately and fully assisted PricewaterhouseCoopers and the IC Consultant in their Forensic Review and IC Review. Upon receipt of the reports from PricewaterhouseCoopers and the IC Consultant, each member of the current Board had been using his best endeavours to rectify the Review Issues and proactively participated in the design and implementation of the enhanced internal control measures.

Having considered the above, the Board is of the view that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which will pose a risk to investors and damage market confidence.

**RESUMPTION GUIDANCE 5 — conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules**

In response to the internal control issues identified during the Forensic Review and to assist the Company in fulfilling the Resumption Guidance 5, the Company engaged the IC Consultant to conduct the IC Review.

**Purpose and scope of the Internal Control Review**

The purpose of the IC Review was to assist the Board in assessing whether the internal control systems and procedures were adequate and effective to comply with the Listing Rules.

The IC Consultant has conducted a review on the internal control systems and procedures of the Company and the Five Subsidiaries regarding the following major areas:

- (i) corporate internal governance;
- (ii) sales and revenue;
- (iii) procurement and payment;
- (iv) fund management;
- (v) financial reporting and disclosure management; and
- (vi) internal control issues identified by PricewaterhouseCoopers during the Forensic Review.

The major work performed by the IC Consultant included:

- (i) interviewed the relevant management and implementation personnel of the Group and read relevant internal control policies and procedures to understand the implementation, weaknesses and deficiencies of such policies and procedures covering the period from 1 June 2019 to 31 May 2020 (the “**Review Period**”);
- (ii) performed tests of documents on a sampling basis to ascertain whether these control procedures were implemented by the Group during the Review Period;
- (iii) notified the Group of any material weaknesses and deficiencies in the design and implementation of the control procedures;

- (iv) explained the weaknesses and deficiencies found in the review process to relevant management and personnel of the Group and provide recommendations for rectification; and
- (v) conducted a follow-up review after the Group has responded on the weaknesses and deficiencies identified by the IC Consultant to ascertain whether the Group has taken relevant remedial measures, and issued the final review report.

## Remedial actions taken by the Group

The IC Consultant performed a follow-up review in August 2020, and did not find any material internal control weaknesses or deficiencies which are classified as high risk level (which means they have significant and direct impact on the assessed area). For the remaining weaknesses or deficiencies which are classified as medium or low risk levels (which mean they have moderate (for medium risk level) or limited (for low risk level) impact on the assessed area), the Company and the Five Subsidiaries have already formulated and implemented remediation actions with reference to the recommendations provided by the IC Consultant, and all of which have already been remedied in or before August 2020.

In order to demonstrate the Company's efforts in improving its internal control system and rectifying the internal control issues identified during the Forensic Review (the **"Identified IC Issues"**), the Company wishes to list out the following remedial actions it took in response to the Identified IC Issues. As part of the IC Review, the IC Consultant has reviewed such remedial actions, the summary of which is set out below:

### Major internal control issues

### Remedial actions taken

#### Coal trading transactions of Power Construction Products

Contracts were approved by directors of the Company and Power Construction Products in circumvention of relevant internal procedures.

Power Construction Products has formulated a form for contract approval (the **"Contract Approval Form"**). Staff shall fill in the Contract Approval Form after drafting the contract, which shall be submitted to the responsible officer, legal adviser, risk management department, finance department, the deputy general manager and general manager (the **"Relevant Departments"**) for approval. Power Construction Products will report its business to the Board on a regular basis.

Multiple contracts with substantial amount of prepayments signed within a short period of time, without a justifiable commercial rationale.

The staff will fill in the Contract Approval Form and the Relevant Departments will assess the commercial rationale before entering into contracts.



## Major internal control issues

## Remedial actions taken

Contract with value less than RMB0.5 billion was not required to be approved by the Board and therefore there was no mechanism in place for the Board to monitor contracts with value less than RMB0.5 billion entered into by subsidiaries.

For all contracts with value less than RMB0.5 billion, the staff will fill in the Contract Approval Form, which shall be submitted to the Relevant Departments for approval. Such contracts will be reported to the Board on a regular basis.

Actual quantity of coal supplied was smaller than the minimum amount stated at the relevant contracts and there was no mechanism in place to monitor performance of contract by the counterparty.

Power Construction Products has formulated a supplier credit assessment form, which shall be completed by the relevant staff, so as to assess the performance of the supplier, including whether it can deliver the products to Power Construction Products on time.

Coal supplied directly delivered by the supplier to the customer without entering into the warehouse of Power Construction Products for record.

Power Construction Products will specify the delivery location of its products in the contract, which shall be the warehouse of Power Construction Products or other specified location. The purchaser shall pick up the products at such location.

## Earth-stone stripping projects entered into by No. 1 Power Construction and Planning Institute

No. 1 Power Construction and Planning Institute had no internal policies on clear determination of project profitability. No profit forecast had been done before entering into contracts with significant value and lack of mechanism to allow the Board to review the commercial rationale of such contracts.

No. 1 Power Construction and Planning Institute have formulated ranges of profit margins for each type of engineering work of the company to ensure the company could make sufficient profits.

No proper progress assessment was made on the engineering work by No. 1 Power Construction before settling payment to the coal mine owners and subcontractors.

The project manager from the engineering department will perform progress inspection at various stages of the engineering work, and will prepare and issue a construction progress confirmation (the “**Progress Confirmation**”) to the project supervision department for review and confirmation. Upon receiving the Progress Confirmation, No. 1 Power Construction will prepare a construction expense statement and arrange payment to the coal mine owners and subcontractors.

**Financial guarantees made by the Company and Design Institute and International Engineering**

Guarantees were made in circumvention of the internal control procedures relating to guarantee management and seal usage.

Design Institute and International Engineering have each formulated and complied with the Measures on Guarantee Management and the Measures on Seal Management.

**Solar power project of Design Institute**

Lack of (i) management for seal usage; (ii) mechanism for reviewing and entering into of contracts; and (iii) proper documentation and record to avoid fabrication of contracts and service report.

Design Institute has prepared a registration record for seal usage, which shall be signed by the seal user specifying the intended usage of the seal. Before entering into contracts, Design Institute will submit the contracts for review and approval by the respective departments.

**View of the IC Consultant**

The IC Consultant was satisfied with the implementation status of remedial actions took by the Group in relation to all identified internal control weaknesses or deficiencies (including but not limited to the remedial actions in response to the Identified IC Issues as set out above), and did not identify any unresolved major internal control issues which would have a significant adverse impact on the business operation or financial position of the Company and the Five Subsidiaries.

**Views of the Audit Committee and the Board**

Having considered the results of the IC Review and the report issued by the IC Consultant, the Audit Committee is of the view that the remedial measures implemented by the Group are able to address the major issues in the internal control systems and procedures of the Group as identified by the IC Consultant and the Group's enhanced financial reporting procedures and internal control systems enable the Group to meet its obligations under the Listing Rules better and to safeguard the interests of the Company and its Shareholders as a whole.

The Board, having made due enquiries (including considering the results of the IC Review and reviewing the report issued by the IC Consultant), concurs with the view of the Audit Committee. The Board believes that the Company has put in place adequate internal control systems and procedures to meet its obligations under the Listing Rules and to safeguard the interests of the Company and its Shareholders as a whole.

**RESUMPTION GUIDANCE 6 — demonstrate that all Directors meet a standard of competence commensurate with their position as directors of a listed issuer to fulfill duties of skill, care and diligence as required under Rules 3.08 and 3.09 of the Listing Rules**

The Board is of the view that each member of the current Board had been able to individually and collectively fulfill their duties of skill, care and diligence as required under Rules 3.08 and 3.09 of the Listing Rules.

The composition of the current Board consists of experienced management from different backgrounds including, amongst others, business management and administration, engineering, accounting and finance, and company secretary. Each current member of the Board in average has more than 30 years' experience in his relevant area of expertise.

Each member of the current Board has:

- (i) diligently used his best endeavours to participate in handling and resolving the Review Issues, including terminating transactions in relation to the Review Issues, drawing up corresponding recovery plans and methods, striving to complete the disposal of assets in issue and recovering of funds related to the Review Issues as soon as possible;
- (ii) actively assisted PricewaterhouseCoopers, Deloitte and the IC Consultant in their review or audit procedures, including assisting the collection of information required and timely and efficiently meeting with various professional parties in order to assist them in gathering and understanding the information from the Group and to accelerate the overall review or audit progress;
- (iii) worked on the internal control enhancement of the Group by utilising their respective knowledge and experience to provide valuable suggestions to the Group in respect of the design, update, development, implementation and review of multiple policies and systems regarding the corporate governance and risk management (including authorisation process and management of conflicts of interests, etc) of the Group; and
- (iv) actively review the implementation of the internal control procedures of the Group and update the relevant policies on a regular basis.

The members of the current Board understand that it is their duties and responsibilities to avoid conflicts between their personal interest and the interests of the Company, to act for the benefit of the Company as a whole and to ensure compliance with the Listing Rules.

The Company respectfully submits that each of the current Director has demonstrated the degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge and experience and holding his/her office under Rules 3.08 and 3.09 of the Listing Rules.

## **FURTHER ANNOUNCEMENT(S) ON MATERIAL INFORMATION AND PROGRESS**

The Company has been taking active steps to address and comply with the Resumption Guidance, and has published announcements from time to time in accordance with the Listing Rules and on a voluntary basis to inform its Shareholders and the market of the status and latest development of the Group so that its Shareholders and the public investors can obtain important information necessary for assessing the status of the Group. The Company will make further announcement(s) on the material development and progress in relation to the fulfillment of the Resumption Guidance as and when appropriate.

## **CONTINUED SUSPENSION OF TRADING**

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 18 March 2019 and will remain suspended until further notice.

**Potential investors and shareholders of the Company should exercise caution when dealing in the shares of the Company.**

By order of the Board  
**Inner Mongolia Energy Engineering Co., Ltd.**  
**Niu Jirong**  
*Chairman*

Inner Mongolia, PRC, 11 September 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Niu Jirong and Mr. Chao Ketu; the non-executive director of the Company is Mr. Chen Ming; and the independent non-executive directors of the Company are Mr. Yue Jianhua, Mr. Yao Tongshan and Mr. Mui Chok Wah.*