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CHINA SMARTER ENERGY GROUP HOLDINGS LIMITED

中國智慧能源集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1004)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

This announcement is made by China Smarter Energy Group Holdings Limited (the “**Company**” together with its subsidiaries, the “**Group**”). Reference is made to the annual report of the Group for the year ended 31 December 2022 (the “**2022 Annual Report**”). Unless otherwise defined, capitalized terms used herein shall bear the same meanings as those defined in the 2022 Annual Report.

The Company would like to supplement the information contained in the 2022 Annual Report in relation to the auditors’ modified opinion in respect of the scope limitations on: (a) valuation of financial assets at fair value through other comprehensive income (“**FVTOCI Valuation**”) and (b) the estimation of expected credit losses on the refundable deposits (the “**ECL**”) as follows:–

AUDIT MODIFICATION ON ECL

The valuation of the deposits was based with reference to *Hong Kong Financial Reporting Standard 13 – Fair Value Measurement*, whereby fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation in respect of the deposits was conducted with certain assumptions on, among others, the probability of default, and loss on defaults.

In respect of the legal actions initiated by the Company to recover the deposits, as of the date of this announcement, the said legal action is still ongoing.

The Company has reviewed the list of pledged assets and noted that the pledged assets were mostly revenue-generating assets that were applied to generate electricity for revenue purpose. Enforcing its right over the pledged assets would not enable the Company to assume the vendor’s rights under the electricity supply contract signed by the vendor and generate revenue as the Company could only take possession of the pledged assets from site. As advised by the Company’s advisers, there was neither open market readily available for the Company to dispose of the pledged assets, nor the Company had any desire to acquire these pledged assets for its own use, the Company is considering but has not yet enforced its right over the pledged assets.

* *For identification purposes only*

Since the time when the counterparty defaulted on its obligations under the sale and purchase agreement, the Company has made its best effort to protect the Company's assets through (i) negotiating with the counterparty; and (ii) signing an agreement for the pledged assets of the vendor as security on 20 March 2020 with a view to protect the Company's rights. Following the current board of directors were on board, they have been using their best effort to recover the deposits from the counterparty by initiating legal actions against the relevant parties in order to seek legal remedies for the non-performance of the counterparty of the sale and purchase agreement. Based on the above, the current board considers that they have discharged their fiduciary duties to protect the interests of the Company and shareholders.

IMPLICATIONS OF INTERNAL CONTROL MATTERS

In respect of the FVTOCI Valuation, the Company had used its best endeavours in communicating with and seeking cooperation from the investee companies to obtain the relevant documents and information required by the Company's then auditors, RSM Hong Kong (the "**Former Auditors**") and allow the Former Auditors to conduct an onsite inspection of documents since early 2021. Despite repeated requests by the Company, the investee company refused to co-operate with the Company. The Group's internal control systems only extend its control over entities within the Group, but not the investee companies, which the Group only held minority interests of around or less than 5% equity interests at all the material times. As such, since the absence of the investee entities' financial information was resulted from the investee companies' refusal to co-operate with the Group, the board and the audit committee are of the view that the said reason is uncorrelated to the Company's risk management or internal control systems, and that the Company has maintained appropriate and effective risk management and internal control systems.

In respect of the ECL, the Company's auditors stated in their audit report in the 2022 Annual Report that it was due to the absence of the financial information of the vendor nor information to support the assets pledged by the vendor as security for settlement of the deposits which caused them unable to determine whether any adjustments might have been found necessary in respect of the carrying amounts of the deposits, and in turn limited the scope of their audit. As such, the current board of directors have made their best efforts in accordance with the Company's risk management and internal control systems to recover the deposits. However, the aforementioned documentations would not be required under a routine internal control system. The board and audit committee are of the view that the Company has maintained appropriate and effective risk management and internal control systems.

The Company will normally enter into transactions with the consideration of the risks against the commercial benefits apprehended. In view of the aforesaid incidents and with an aim of avoiding the happening of the same again in the future, the Company will engage a proper external independent adviser to review the internal control/risk management policies of the Company, in particular the audit committee had made recommendations on considering to review and implement the followings:

1. Carry out directors meeting between executive directors more frequently to update the operations of the Company;

2. Enhance the internal control procedures in respect of investment in offshore private companies in view of the potential difficulties in acquiring necessary financial information, such as conducting a more comprehensive pre-deal analysis and engaging legal advisers in drafting/reviewing agreements with counterparties in safeguarding the Company's interests;
3. Enhance the risk management policy including but not limited to payment of deposits in material acquisitions, such as escrow arrangement;
4. Instruct the said external independent adviser to discuss with the audit committee member and the board to follow up the highlighted weakness mentioned on the internal control/risk management report, and if necessary, consider further enhancing the procedures in respect of acquisitions and new investments; and
5. Review the communication policy of the Company in strengthening the Company's communications with counterparties in a transaction.

Prior to receiving the results from the review of the external independent adviser, the Company will take the following actions:

1. Engage professional advisers in reviewing the terms and conditions of any future investments in offshore private companies or any material transactions involving payments of deposits with external parties;
2. Obtain approval from the audit committee prior to entering into any future investment in offshore private companies or any material transactions involving payments of deposits with external parties; and
3. Arrange upcoming directors' trainings focusing on the internal control and risk management of the Company.

The above additional information does not affect other information contained in the 2022 Annual Report. All other information in the 2022 Annual Report remains unchanged.

By order of the Board
China Smarter Energy Group Holdings Limited
Chen Xiaxuan
Chairman and Executive Director

Hong Kong, 12 July 2023

As at the date of this announcement, Mr. Chen Xiaxuan, Mr. Bo Dateng and Ms. Yue Lu are the executive directors of the Company; and Mr. Pun Hau Man, Mr. Lo Ka Ki and Mr. Kwok Shun Sing are the independent non-executive directors of the Company.