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China New Energy Limited

*(Incorporated in Jersey, Channel Islands with limited liability and
carrying on business in Hong Kong as “Zhongke Tianyuan New Energy Limited”)
(Stock Code: 1156)*

SUPPLEMENTAL ANNOUNCEMENT MAJOR TRANSACTION SUBSCRIPTION OF EQUITY INTEREST IN ZHONGKE GREEN

This announcement is made by China New Energy Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement (the “**Announcement**”) of the Company dated 23 November 2023 in relation to subscription of equity interest in Zhongke Green. Unless otherwise defined, capitalised terms in this announcement shall have the same meanings as those defined in the Announcement.

The Board would like to provide the Shareholders and potential investors of the Company with the following additional information in relation to the Subscription.

DUE DILIGENCE CONDUCTED PRIOR TO THE SUBSCRIPTION

The members of the Board are fully aware of their duties under the Listing Rules and other laws and regulations. The executive Directors are of the view that they have conducted proper due diligence on Zhongke Green prior to the Subscription and have fulfilled their fiduciary duties, and despite that no independent valuer has been engaged to appraise the worth of the Zhongke Green, the executive Directors have taken comprehensive and sufficient investigation and due diligence procedures prior to making the decision for the Subscription. In particular, apart from those matters in the Announcement, the Board would like to further stipulate that:

- a. The Group has a long history of cooperation with Zhongke Green and has a good understanding of Zhongke Green’s business operations and financial position. Zhongke Tianyuan and Zhongke Green entered into a construction contract for the Technical Upgrading and Renovation Project of Supporting 300 ton/day High Grade Edible Alcohol Complete Plant for the 100,000 ton/year Baijiu Construction Project for Zhongke Green (the “**Construction Contract**”) with a contract sum of RMB80 million in January 2021. As the contractor under the Construction Contract, Zhongke Tianyuan evaluated the existing production line of Zhongke Green as an edible alcohol and high protein feed production plant and designed an upgrade plan for the production line. Zhongke Tianyuan deployed its engineering and technical experts to the plant and implemented the upgrading of the production line. They also assisted in commissioning various tests on the upgraded equipment to ensure a high production efficiency and effectiveness. Following the completion of the upgrading process, the highest output of the production plant reached 333 tons of superior alcohol per day, and the average output reached 315 tons of superior alcohol per day. Under the Construction Contract, Zhongke Tianyuan continues to provide on-site technical support services to the production plant after completion of the upgrading project. As a result of the above, the personnel in Zhongke Tianyuan, and also the Board of the Company, are very familiar with the daily operations of Zhongke Green and consider that, taking into account the production ability of Zhongke Green, the investment in Zhongke Green can bring positive impact towards the Group’s financial position.
- b. The value of Zhongke Green as assessed by the Board was based on the following calculation:

	RMB (approximately)
A. Verified net asset value of Zhongke Green as appraised by Guangdong Zexin Certified Public Accountants Co., Ltd (the Asset and capital verification report of Zhongke Green as of 31 October 2020)	94,840,000
B. Value of the Land Use Right held by Zhongke Green as appraised by Guangdong Zexin Certified Public Accountants Co., Ltd (the Asset and capital verification report of Zhongke Green as of 31 October 2020)	Less: 15,274,851
C. Estimated value of the Land Use Right held by Zhongke Green with reference to the market price of comparable local industrial land as at 4 April 2023	66,150,000
Estimated net asset value of Zhongke Green (taking into account the market price of comparable local industrial land) (i.e. A-B+C)	<u>145,715,149</u>

Prior to making the decision to invest in Zhongke Green, the executive Directors had formed a view that the basis of computation of the net asset value was fair and reasonable given that (i) the reference prices taken for assessing the value of the land used by Zhongke Green were based on recent market figures generally adopted by market practitioners which could accurately reflect the up-to-date value of the land being appraised; and (ii) the computation of the estimated value was based on the verified net asset value in 2020, which was made prior to the upgrading works conducted by Zhongke Tianyuan, and therefore it could be concluded that the actual value of the target would undoubtedly be much higher than that verified in 2020 following the upgrading works.

- c. The Construction Contract amount that Zhongke Tianyuan and Zhongke Green signed in January 2021 was RMB80,000,000. As of the date the Subscription Agreement was signed, Zhongke Green had remitted RMB35,470,000 to Zhongke Tianyuan, with the remaining unpaid amount of RMB44,530,000. Taking into account the engineering supplements and other receivables of RMB8,470,000, the total debt of Zhongke Green due to Zhongke Tianyuan was RMB53,000,000 immediately prior to the Subscription. Following the Subscription, the entire outstanding amount due from Zhongke Green to Zhongke Tianyuan has been settled.
- d. The debt-to-equity swap arrangement conducted by means of the Subscription does not constitute any haircut to the account receivable being offset. The total amount of accounts receivable due from Zhongke Green is RMB53,000,000, which has not been impaired and is equivalent to value of the equity conversion. Following the equity conversion under the Subscription, the balance of accounts receivable is nil.

FURTHER DUE DILIGENCE

Furthermore, the Group has appointed an independent valuer to appraise the value of Zhongke Green on a yearly basis. The Company has obtained a valuation report from an independent valuer, namely, Guangzhou Xinxin Asset Valuation Co., Limited (廣州新澤信資產評估有限公司), in the PRC in respect of the appraised value of Zhongke Green as at 31 December 2023 (the “**Valuation Report**”). Based on the Valuation Report, the appraised value of Zhongke Green is RMB222,044,100, which is higher than the estimated value that Zhongke Tianyuan relied on.

All directors of the Company have reviewed, and are satisfied with, the contents of the Valuation Report, in particular, the basis of computation, the scope of work performed by the valuer and the valuation approaches and methodologies on which the valuation is based.

BENEFITS TO THE COMPANY

Other than having the opportunity to invest in Zhongke Green, Zhongke Tianyuan also has the potential to further develop its business by providing services to Zhongke Green under the terms of the Subscription Agreement. Pursuant to the Subscription Agreement, in the event that Zhongke Green has any demand for contractors to conduct new projects in the future, Zhongke Tianyuan shall be entitled to be appointed as the designated contractor at fair market rate. Given the possible mutual benefit for the parties to further cooperate, Zhongke Tianyuan has successfully negotiated with Zhongke Green for conducting the investment at a discounted value. Following the completion of the Subscription, the Group has nominated the executive Directors, namely Mr. Yu Weijun and Mr. Tang Zhaoxing, as the directors of Zhongke Green to participate in its management and daily decision-making process for the purpose of protecting the interest of the Group.

Zhongke Green ceased production from August 2022 to July 2023 due to market downturn caused by the impact of the epidemic, and resumed production in August 2023. Based on the management account provided by Zhongke Green, Zhongke Green has generated an unaudited revenue of RMB293,370,000 and an unaudited net profit of RMB2,150,000 during the period from 24 August 2023 to 31 December 2023.

The Company believes that Zhongke Tianyuan's equity participation in Zhongke Green through debt to equity conversion has resolved the risk of accounts receivable not being collected in a timely manner, which is in line with our Group's long-term development goals and business development strategy. The business integration of Zhongke Green this time can bring potential profit growth points for both parties, which is in line with the overall interests of the Company and the Shareholders.

LISTING RULES IMPLICATIONS

As disclosed in the Announcement, as one or more of the applicable percentage ratios in respect of the Transaction exceeds 25% but is less than 100%, the Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Given the Subscription Agreement was entered into by Zhongke Tianyuan and Zhongke Green on 31 August 2023 and the transactions contemplated under the Subscription Agreement were completed on the same date, the Directors resolved that the Company shall not convene a general meeting to obtain Shareholders' approval of the Subscription Agreement and the Transaction. As the Company has disclosed all necessary information relating to the Subscription Agreement and the Transaction, it is no longer necessary for the Company to issue the circular relating to the matter.

By Order of the Board
China New Energy Limited
Yu Weijun
Chairman

Hong Kong, 22 March 2024

As at the date of this announcement, the Board comprises two executive directors, namely Mr. Yu Weijun (Chairman) and Mr. Tang Zhaoxing (Chief Executive Officer); and three independent non-executive directors, namely Mr. Richard Antony Bennett, Mr. Chan Shing Fat Heron and Ms. Wong Mei Ling.