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CCIAM Future Energy Limited

信能低碳有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 145)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2021 AND INFORMATION REQUIRED UNDER SECTION 436 OF THE COMPANIES ORDINANCE

Reference is made to the annual results announcement of CCIAM Future Energy Limited (the “**Company**”), together with its subsidiaries (collectively, the “**Group**”), for the year ended 31 December 2021 dated 25 March 2022 (the “**Results Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Results Announcement.

The Company wishes to provide the following additional information on and/or relating to: (i) reasons leading to recognition of the net allowance for expected credit losses (the “**ECL**”) on trade and finance lease receivables of HK\$35.16 million (the “**ECL Allowance**”); (ii) basis for determining the ECL provision for projects; (iii) details of the projected cash flow model used for the value-in-use calculation of Weldtech Group; (iv) factors which adversely affect Weldtech Group’s capability on getting new orders and collecting receivables from its customers; and (v) the publication of financial statements required under section 436 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the “**Companies Ordinance**”).

(i) **Reasons leading to recognition of the ECL Allowance**

The Company recognized the ECL Allowance of HK\$35.16 million for the year ended 31 December 2021. 99.2% of the ECL Allowance was provided for the outstanding receivables due from three individual projects, namely:

1. The Wuhan data center project;
2. The Jiaxing sewage treatment project; and
3. The Gansu PEG energy-saving project

The carrying amount of and the ECL provision provided for each of the above three projects are set out hereunder:

Project	Carrying amount as at Dec 31, 2020, RMB'million	Instalments paid in 2021 RMB'million	ECL provided in 2021 RMB'million	Carrying amount as at Dec 31, 2021 RMB'million	Outstanding balance to be settled pursuant to each of the signed settlement agreements RMB'million
Wuhan data center	31.7	3.0	16.9	11.8	50.5
Jiaxing sewage treatment	6.7	0	6.7	0	21.5
Gansu PEG energy-saving	5.6	0.3	5.3	0	5.8

Details of these three individual projects are described below:

1. The Wuhan data center project:

The Wuhan data center situates in Hubei Province of the Mainland (the “**Data Centre**”), and Weldtech Group was engaged to install an air-conditioning system for the Data Center. Although Weldtech Group had performed its contractual duty by completing installation of the air-conditioning system for the Data Centre, the developer had only made partial payment of the agreed contractual costs to Weldtech Group, with the balance thereof remaining outstanding. After having paid instalments in an aggregated sum of approximately RMB18.7 million to Weldtech Group, the developer has failed to make further repayments.

The developer defaulted in repayment since November 2021, and as at the juncture of the developer's default, an aggregate sum of RMB43 million remained due and owing to Weldtech Group. Weldtech Group therefore instituted proceedings against the developer in the Shanghai Pudong People's Court (the "**Shanghai Court**") in 2021 for recovery of the outstanding receivable.

The developer negotiated with Weldtech Group for amicable resolution of the outstanding receivable, and eventually, the developer executed a settlement agreement with Weldtech Group in February 2022 under and pursuant to which the developer shall repay RMB50.5 million to Weldtech Group by instalments before 30 April 2022 for amicable resolution of the outstanding receivable (the "**Settlement Agreement**"). The Settlement Agreement was approved by the Shanghai Court in February 2022.

The developer has breached the Settlement Agreement by failing to make the scheduled instalment payment since March 2022, and Weldtech Group has duly reported the developer's breach to the Shanghai Court. Due to the current locking down of Shanghai to combat the COVID-19 pandemic, the developer's breach has yet to be dealt with. Weldtech Group will continue to pursue the Recovery Proceedings against the developer once the Shanghai Court resumes.

2. *The Jiaxing sewage treatment project*

The Jiaxing sewage project situates in Zhejiang Province of the Mainland. Notwithstanding Weldtech Group's completion of its contractual duties in 2017, the customer has, probably due to its internal reasons, defaulted in paying Weldtech Group since 2019. As at the juncture of the customer's default, an aggregate sum of RMB21.5 million remained due and owing to Weldtech Group. Weldtech Group therefore instituted proceedings against the customer in the Shanghai Jing'an Court for recovery of the said RMB21.5 million (the "**Relevant Proceedings**")

The customer negotiated with Weldtech Group for amicable resolution of the Relevant Proceedings, and eventually, the customer executed a settlement agreement with Weldtech Group in February 2022 under and pursuant to which the customer agreed to pay RMB21.5 million to Weldtech Group by 31 March 2022 for amicable resolution of the Relevant Proceedings (the "**Relevant Agreement**"). The Relevant Agreement was approved by the Shanghai Jing'an Court in February 2022.

With the customer having failed to pay RMB21.5 million to Weldtech Group in accordance with the Relevant Agreement, Weldtech Group had duly reported the customer's breach to the Shanghai Jing'an Court. Again, due to the current locking down of Shanghai to combat the COVID-19 pandemic, the customer's breach has yet to be dealt with. Weldtech Group will continue to pursue the Relevant Proceedings against the customer once the Shanghai Jing'an Court resumes.

3. *The Gansu PEG energy-saving project*

Weldtech Group started the Gansu PEG energy-saving project, which is situated in Gansu Province of the Mainland, in 2017. Weldtech Group paid a supplier RMB4.3 million in 2017 for equipment, facilities and other goods therefor, but the supplier failed to deliver the same to Weldtech Group as agreed. Weldtech Group took legal actions against the supplier in the Shanghai Court in 2019 for refund of the amount paid with interest (the "**Refund Proceedings**").

The supplier negotiated with Weldtech Group for amicable settlement of the Refund Proceedings which eventually led to the execution of the settlement agreement in July 2020 (the "**Resolution Agreement**"). Under the Resolution Agreement, which was approved by the Shanghai Court, the supplier ought to repay RMB6.3 million to Weldtech Group by instalments, with the last instalment to be paid before 31 December 2022.

After having paid two instalments in the total sum of RMB0.5 million to Weldtech Group in accordance with the Resolution Agreement, the supplier has failed to make further repayments. By the juncture of the supplier's default, RMB5.8 million remained due and owing to Weldtech Group. Weldtech Group had duly reported the supplier's breach of the Resolution Agreement to the Shanghai Court in July 2021 and as a result, the Shanghai Court imposed a restriction on high-end consumption against the legal representative of the supplier.

Given Weldtech Group has yet to recover the sum of RMB50.5 million from the developer of the Data Centre, the RMB21.5 million from the customer in the Jiaxing sewage treatment project and the RMB5.8 million from the supplier in the Gansu PEG energy-saving project as aforementioned as well as the uncertainties on the recoverability of the respective outstanding amounts, the Company made the ECL Allowance accordingly.

Further and/or alternative to Weldtech Group's pursuance of legal proceedings in the Shanghai Court, Weldtech Group has also engaged an independent third party to assist the Company in recovering its outstanding receivables.

(ii) Basis for determining the ECL provision for 3 respective projects aforementioned

The detailed basis for determining the ECL provision for the said outstanding amounts due by the developer of the Wuhan Data Centre project, the customer in the Jiaying sewage treatment project and the supplier in the Gansu PEG energy-saving project are set out hereunder:

	Probability of default ("PD") %	Loss given default ("LGD") %	ECL %	ECL Basis (RMB'000)	
The Wuhan data center project					
ECL 2020	51.28%	62.14%	31.9%	14,742	The customer made partial repayments in 2019 and 2020. The estimated credit rating was assumed to be "Ca-C". The adopted PD and LGD was mainly based on the average market default rates and recovery rates extracted from the 2020 annual default studies published by Moody's.
ECL 2021	100%	72.84%	72.84%	31,668	Due to the shortfall of the repayments, Weldtech Group sued the customer in 2021. Thus, the PD = 100% while the LGD was mainly based on the average market recovery rates on subordinated bonds extracted from the 2021 annual default studies published by Moody's.
Provision for 2021				16,926	Being the difference between the ECL 2020 and the ECL 2021

	Probability of default ("PD") %	Loss given default ("LGD") %	ECL %	ECL Basis (RMB'000)
The Jiaxing sewage treatment project				
ECL 2020	100%	68.86%	68.86%	14,805 The customer did not make repayment in 2020 and Weldtech Group had been in negotiation with the customer for repayment. Thus, the PD = 100% while the LGD was mainly based on the average market recovery rates on senior unsecured bonds/subordinated bonds extracted from the 2020 annual default studies published by Moody's.
ECL 2021	100%	100%	100%	21,500 No repayment from the customer in 2021. Based on the Company's internal assessment, full provision was made for the outstanding balance.
Provision for 2021				6,695 Being the difference between the ECL 2020 and the ECL 2021.

	Probability of default ("PD") %	Loss given default ("LGD") %	ECL %	ECL Basis (RMB'000)
The Gansu PEG energy-saving project				
ECL 2020	13.93%	62.22%	8.66%	529 In July 2020, Weldtech Group signed a settlement agreement in court with the supplier that it would settle the outstanding balance (RMB6.3 million) by instalments before end of 2022. Installment of RMB200,000 was made in December 2020 and another RMB300,000 was made in January 2021, in according to the settlement agreement. The estimated credit rating was assumed to be "Caa". The adopted PD and LGD was mainly based on the average market default rates and recovery rates extracted from the 2020 annual default studies published by Moody's.

	Probability of default ("PD") %	Loss given default ("LGD") %	ECL %	ECL Basis (RMB'000)
ECL 2021	100%	100%	100%	5,800
				The supplier failed to make further repayments in 2021.
				Weldtech Group reported the case to the Shanghai court in July 2021.
				Based on the Company's internal assessment, full provision was made for the outstanding balance.
Provision for 2021				5,271
				Being the difference between the ECL 2020 and the ECL 2021.

(iii) Details of the projected cash flow model used for the value-in-use calculation of Weldtech Group

The Company engaged an independent professional valuer (the "Valuer") to assess the value-in-use of Weldtech Group as at 31 December 2021. Based on Weldtech Group's financial position, and in agreement with the Company's auditor, the income approach was adopted by the Valuer to reflect the value-in-use of Weldtech Group. Under the income approach, a ten-year discounted cash flow model (the "DCF model") was prepared to assess the value-in-use of Weldtech Group by forecasting its cash flows and discounting the cash flows to arrive at a current, present value. The DCF model was prepared by the Valuer based on the business forecast of Weldtech Group in the coming years provided by Weldtech Group with inputs on discount-related factors assessed by the Valuer.

(iv) Factors that negatively affected Weldtech Group’s capability on getting new orders and collecting receivables from its customers

1. *The Pandemic and the Lockdowns*

Since late January 2020, the central government of the Mainland has imposed lockdown measures in different provinces or municipalities in the Mainland to combat the COVID-19 pandemics, and such measures have caused delays in different pipeline projects implemented or undertaken by Weldtech Group. Such delays have in turn delayed payments received or to be received by Weldtech Group, and Weldtech Group’s financial position has been adversely affected.

Given that many of Weldtech Group’s customers and partners are facing similar financial difficulties caused by the Pandemic, Weldtech Group can hardly recover receivables due, and likewise, Weldtech Group can hardly get new orders.

Further, the Pandemic has also adversely affected the demand for Weldtech Group’s energy-saving products, and consumers’ requests for discounts or price-reductions have also eaten into Weldtech Group’s profit margin on the work-in-progress projects and new contracts.

2. *Energy price fluctuation*

The Company considers there is a positive correlation between the oil price (energy price) and the demand for energy-saving services. Based on Weldtech Group’s experience, building owners and property developers will have an interest in energy-saving products when the energy price goes up. Energy prices fluctuated and were on the downtrend for most of 2020 and 2021, which the Company considers are material reasons which negatively affected the demand for Weldtech Group’s energy-saving products over such periods.

3. *Financial crisis faced by the property developers in the Mainland since 2021*

Starting in early 2021, sale of real properties has plunged while borrowing costs have elevated, causing significant financial pressure on many property developers and their financiers in the Mainland. Many of these property developers have to withhold the commencement of or progress in construction works due to liquidity concerns. Since property developers and construction companies are the major

customers of Weldtech Group, any withholding of or delay in construction works will adversely affect the implementation of projects undertaken by Weldtech Group. Worse still, some of Weldtech Group's potential new orders have been canceled as a result.

(v) Publication of financial statements required under section 436 of the Companies Ordinance

The financial information relating to the financial years ended 31 December 2020 and 31 December 2021, respectively, of the Group as set out in the Results Announcement does not constitute the statutory annual consolidated financial statements of the Group of the said 2 financial years. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the statutory annual consolidated financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's independent auditor has reported on those financial statements. The independent auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The above additional information does not affect the contents of the Results Announcement.

By order of the Board
CCIAM Future Energy Limited
Chong Kok Leong
Executive Director

Hong Kong, 20 May 2022

As at the date hereof, the board of Directors comprises, Mr. Cheng Lut Tim, Mr. Chong Kok Leong and Mr. Zhuang Miaozhong being executive Directors; and Mr. Choy Hiu Fai, Eric, Mr. Huang Lizhi and Mr. Lam Yau Fung, Curt being independent non-executive Directors.