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中科天元
China New Energy

# 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 IN RELATION TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report of China New Energy Limited (the "**Company**") for the year ended 31 December 2023 ("**2023 Annual Report**"). Unless otherwise stated or defined herein, capitalised terms used herein shall have the same meanings as those defined in the 2023 Annual Report. The Board of the Company hereby provides supplemental information in relation to the following items disclosed in the 2023 Annual Report.

**In relation to the Net Impairment Losses Under Expected Credit Losses ("ECL") Model for the Trade and Other Receivables and Contract Assets on page 14 in the 2023 Annual Report**

The ECL for the trade and other receivables, and contract assets totaling approximately RMB76 million, is determined by the valuation report prepared by Access Partner Professional Services Limited (the "**Independent Valuer**"), an independent professional valuer.

**(i) The valuation method**

In determining the valuation method, the Independent Valuer has considered the following valuation approaches, which are the appropriate methodologies in accordance with the IFRS 9:

1. <u>Simplified Approach</u>

   Applied to trade receivables, contract assets, and lease receivables, taking into account historical provision rates.

2. General Approach

Adopted for financial assets not eligible for other approaches, comprising 3 stages based on credit risk.

Stage 1: Assets without significant credit risk increase since initial recognition are measured with 12-month ECL.

Stage 2: Assets with significant credit risk increase since initial recognition are measured on a lifetime ECL.

Stage 3: Credit impaired assets are measured using lifetime ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables and contract assets.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

The Independent Valuer adopted simplified approach for trade receivables and contract assets and general approach for other receivables to calculate the ECL.

The ECL of receivables balance are generally assessed on collective basis. For the balance with significant amount and different risk characteristic, the ECL will be assessed on individual basis.

### (ii) The value of inputs, basis and key assumptions

*Expected Credit Loss of Trade and Bills Receivables as at 31 December 2023*

| | Probability of Default | Recovery Rate | Gross Carrying Amount | Loss Allowance | Net Carrying Amount |
|---|---|---|---|---|---|
| | *%* | *%* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| **Assessed collectively** | | | | | |
| Within 1 year | 0.20%-2.05% | 35.1%-40.9% | 33,706 | 304 | 33,402 |
| 1 to 2 years | 0.68%-3.95% | 36.1%-45.3% | 1,012 | 21 | 991 |
| 2 to 3 years | 100% | 0% | 2,734 | 2,734 | - |
| Over 3 years | 100% | 0% | 5,607 | 5,607 | - |
| **Total** | | | **43,059** | **8,666** | **34,393** |

| | Probability of Default | Recovery Rate | Gross Carrying Amount | Loss Allowance | Net Carrying Amount |
|---|---|---|---|---|---|
| | *%* | *%* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| **Assessed individually** | | | | | |
| **Total** | 100% | 0% | **64,966** | **64,966** | **-** |

*Expected Credit Loss of Contract Assets as at 31 December 2023*

| | Probability of Default | Recovery Rate | Gross Carrying Amount | Loss Allowance | Net Carrying Amount |
|---|---|---|---|---|---|
| | *%* | *%* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| **Assessed collectively** | | | | | |
| Within 1 year | 0.95%-2.05% | 36.4% | 1,992 | 113 | 1,879 |
| 1 to 2 years | 3.08%-3.95% | 36.1% | 168,610 | 3,655 | 164,955 |
| 2 to 3 years | 100% | 0% | 4,167 | 4,167 | - |
| Over 3 years | 100% | 0% | 658 | 658 | - |
| **Total** | | | **175,427** | **8,593** | **166,834** |

| | Probability of Default | Recovery Rate | Gross Carrying Amount | Loss Allowance | Net Carrying Amount |
|---|---|---|---|---|---|
| | *%* | *%* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| **Assessed individually** | | | | | |
| **Total** | 100% | 0% | **11,473** | **11,473** | **-** |

The probability-weighted loss default ("**PLD**") model involves the four key parameters (i.e. inputs), including probability of default ("**PD**"), loss given default ("**LGD**"), exposure at default ("**EAD**") and discount factor ("**DF**"). In this model, the total ECL is derived by summing up the ECL of all the expected default events within a specific period. The total ECL for each possible event is calculated as the product of the four parameters above, through the formula shown below:

ECL = DF x PD x LGD x EAD

EAD represents the value that the Group is exposed to when the debtor defaults. In this case, the EAD equals to the gross carrying amount of the Receivables as there is no collateral value.

PD is the likelihood of the debtor defaults (failure to meet repayment or debt obligations) during a particular period of time. For the aging of the Receivables which are within 2 years, the Valuer estimated the PD with reference to the Bloomberg Database, according to the industry and geographical locations of the debtors. For the aging of the Receivables which are over 2 years, the PD is determined to be 100%. Macroeconomic factors (i.e. GDP and CPI) have also been taken into account in determining the forward-looking adjustment factor (FLA) by regression model.

LGD is the percentage of contractual claims that would be lost if the debtor defaults. It is calculated as (1 - recovery rate). For the aging of the Receivables which are within 2 years, the Valuer estimated the recovery rates based on the data from the latest annual default study issued by Moody's on 13 March 2023 (the "**Moody's Research**"), with reference to the assigned debtors' credit rating. For the aging of the Receivables which are over 2 years, the recovery rate is determined to be 0%.

DF is the factor that needs to be multiplied in order to convert future cash flows into the present value at the valuation date. The DF is not considered in the ECL assessment as the Independent Valuer considered that the Receivables are short-term in nature, and the simplified approach is designed as a practical expedient to reduce the operational complexity and the burden on the entity.

The Independent Valuer has obtained information prepared by the management of the Group and considered all relevant factors during the valuation period, including but not limited to the following factors: (i) the asset information list as of the valuation date; (ii) the overall economic outlook and market factors that affect the expected credit losses of the assets; (iii) other reliable sources of market information; and (iv) other factors that have a significant impact on the expected credit losses of the assets.

The Independent Valuer has conducted research to assess the reasonableness and fairness of the information provided. It assumes and relies on the accuracy of the information provided. It relies heavily on this information to form its opinions.

In conducting the valuation work, certain major assumptions have to be adopted in order to sufficiently support the conclusion of values. In addition, valuation analyses are also subject to specific representations and certain principal assumptions that the management considers necessary and appropriate for adoption in the analyses (as outlined below).

Key assumptions include the reliability of provided asset information and stability in political, legal, fiscal, technological, and economic conditions. Interest and exchange rates are assumed not to differ significantly from present expectations.

**(iii) The significant change(s) in the value of inputs/assumptions**

**Collective assessment**

For Trade Receivables

There was no notable change in the loss rates from the previous year for trade receivables.

For Contract Assets (Aged Over 2 to 3 Years)

The loss rate changed significantly due to a reassessment of the recoverability probability. The management's low expectations for receiving these amounts led to an increased provision rate.

**Individual assessment for the balances with significant amount**

Inner Mongolia Zhongneng Biotechnology Co., Ltd. ("**IM Zhongneng**")

The Company observed significant changes in the loss rates for receivables from IM Zhongneng, including trade receivable, contract assets, and other receivables. The main reasons for these changes include:

(i) Several reminders sent between September and November 2022, and in April and May 2023, failed to collect any payment or settlement from IM Zhongneng.

(ii) A letter sent by the Group's legal adviser on 29 January 2024 also failed to elicit a response or payment.

(iii) Information sourced from the Tianyancha website has revealed that IM Zhongneng is currently involved in four pending legal cases in the PRC. These cases remain unresolved, which obviously impacts the financial and operational stability of IM Zhongneng significantly. The underlying legal challenges contribute to the company's inability or reluctance to settle its financial obligations to the Group.

Further, these unresolved legal matters are likely to hinder IM Zhongneng's ability to make payments, thereby increasing our assessment of the risk associated with recovering the outstanding receivables. This information has been factored into the Board's decision-making process, further substantiating the conclusion that the likelihood of recoverability of the debts owed to the Group is remote, and thus justifying the 100% provision under the Expected Credit Loss model.

(iv) Since 2022, there have been no payments or settlements from IM Zhongneng, despite numerous attempts to reach them via letters and phone calls, no clear response was received.

(v) The anticipated resumption of contract work post-Covid-19 in 2023 did not materialize, with IM Zhongneng not recovering sufficiently from prevailing economic difficulties.

(vi) Financial statements of IM Zhongneng from 2019 to 2022 were accessible by the Group, but since 2023, the Group has not been able to obtain such information due to the lack of clear response.

Given these factors, the Board concluded that the recovery of these long-outstanding receivables, over three years old, is remote. Consequently, a 100% provision for these receivables was adopted for the ECL. This includes provisions of RMB34.3 million for trade receivables, RMB5.1 million for contract assets, and RMB46.8 million for other receivables recognized during the year ended 31 December 2023.

The supplemental information above does not affect other information contained in the 2023 Annual Report and, save as disclosed above, all other information in the 2023 Annual Report remains unchanged.

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

Hong Kong, 23 September 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.*