卡姆丹克太陽能系統集團有限公司
Comtec Solar Systems Group Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 712)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULT FOR THE YEAR ENDED 31 DECEMBER 2019 IMPAIRMENTS ON GOODWILL

MANAGEMENT DISCUSSION AND ANALYSIS

Reference is made to the announcements of Comtec Solar Systems Group Limited (the "**Company**") on 31 March 2020 and 15 April 2020 regarding its annual result for the year ended 31 December 2019 (the "**Announcements**") and the Annual Report. As disclosed in the Announcements and the Annual Report, the Company recognised impairment loss on goodwill of RMB63.1 million for 2019, among which, RMB60.3 million was attributable to the photovoltaic power stations CGU arising from the acquisition of Comtec Renewable Energy. The Company would like to provide further information in respect of the impairments on goodwill. Unless otherwise stated, terms defined in the Announcements shall have the same meanings when used herein.

Reasons for and the circumstances leading to the impairment losses

As disclosed in the Announcements and the Annual Report, although the revenue of Comtec Renewable Energy increased by 95% in 2019, its performance did not meet the expectation in the business forecast which resulted in the preparation of a subsequent cash flow projection and the recognition of impairment loss of RMB60.3 million.

Although Comtec Renewable Energy had been relentless in securing business opportunities and had been liaising and communicating continuously with the potential customers during the Period, certain projects with potential customers failed to materialize into binding sales contracts through to the fourth quarter of 2019. The revenue of Comtec Renewable Energy recorded for the Period was less than its forecasted revenue for the Period. The actual growth of revenue during the Period was less than the previous estimation. This is the major factor leading to the failure of Comtec Renewable Energy to achieve its business forecast. Hence, the Company reduced the estimated revenue for the purpose of the relevant impairment analysis according to the actual growth achieved during the Period, which reduction resulted in the recognition of the impairment losses. Specifically, the forecast revenue for the year ending 31 December 2020 in the impairment analysis was revised downward as a result of Comtec Renewable Energy's failure to achieve the business forecast in 2019 and the Company recorded impairment losses for the Period accordingly.

The factors and circumstance leading to the impairment losses were not foreseeable nor anticipated by the Company in the following circumstances. During the first quarter of 2019 when the Company performed the annual impairment analysis for the annual audit of 2018, the revenue of Comtec Renewable Energy during the Period was estimated based on its project pipelines and the projects in discussion with potential customers which indicated strong interests to proceed with transactions, at the time when such estimation was made. Throughout the frequent communications from January 2019 to September 2019, no indication had been made to the Company by the potential customers that any material transactions in discussion would not materialize. In view of the above and taking into account that generally construction of the projects undertaken by Comtec Renewable Energy would take approximately 30 to 60 days, prior to the fourth quarter of 2019, the Company did not consider it necessary to exclude the relevant businesses from its business plan for 2019 as it was not foreseeable nor anticipated that these projects would not be undertaken during 2019.

The Company became concerned about a potential shortfall from forecasted revenue in the fourth quarter of 2019 when the Group had not entered into binding sales agreements for the projects in discussion with potential customers. Such failure finally resulted in the shortfall from forecasted revenue during the Period.

Details of the impairment assessment of goodwill

D&P China (HK) Limited ("**D&P China**") was engaged to perform the impairment analysis and D&P China is an independent and experienced valuation specialist. Details of major assumptions adopted in the impairment assessment are set out as below:

1. The revenue growth rate for the year ending 31 December 2020 was estimated to be approximately 102.7% which was referenced to the growth rate of approximately 95.0% achieved for the Period, the project pipelines of Comtec Renewable Energy and communications with potential customers. It was assumed the trend of revenue grow would persist but, conservatively, the growth rate of revenue after 2020 would gradually decelerate. Thus, the Company estimated the revenues of Comtec Renewable Energy in 2021 to 2024 will grow by 5% to 10% per year.

2. The gross margin of Comtec Renewable Energy for the year ending 31 December 2020 is estimated to be approximately 23.7%. It is referenced to the actual gross margin of Comtec Renewable Energy in 2019 of approximately 26.9% as well as its estimated cost of sales which included the subcontracting fees, operation and management expenses on completed projects as well as depreciation expenses. The costs of sales are estimated based on that of the completed projects, especially the projects completed in fourth quarter of 2019, and communications with potential customers. The gross margin of Comtec Renewable Energy in 2021 to 2024 were estimated to be approximately 24.2%, 24.6%, 25.0% and 25.3% respectively. They were estimated by reference to the actual

gross margin in 2019 and the estimated gross margin in 2020. The cost of sales in 2021 to 2024 was also estimated according to the growth in the estimated revenue during the period.

3. Operating expenses of Comtec Renewable Energy are expected to be reduced according to the actual expenses reduction achieved in 2019 and the planned cost control in 2020. The estimation in 2021 and afterwards is based on the estimated operating expenses incurred by Comtec Renewable Energy for the year ending 31 December 2020 and the growth in the estimated revenue in 2020 to 2024.

4. It is subject to 25% corporate income tax rate in China.

5. No material amount of capital expenditures by Comtec Renewable Energy is expected.

6. Working capital is defined as total current assets less total current liabilities (only includes those for operation). Future working capital is estimated by the median working capital to sales ratio of comparable companies times the projected sales. It is assumed that Comtec Renewable Energy will follow the industry level in the long run.

7. The forecast is extrapolated for four more years before reaching the terminal year of 2025. Perpetual growth rate from 2025 onwards was assumed to be 3% per annum which is an indication of China's long-term inflation rate.

8. The discount rate is estimated to be 19%, which is similar to 19.5% as the circular in acquisition on 9 August 2016. The rate at which the annual net cash flows discounted to present value is based on the estimated weighted average cost of capital ("**WACC**"), which incorporates the cost of equity and debt, weighted by the proportionate amount of each source of capital in the capital structure. The cost of equity for the valuation was developed through the application of the Capital Asset Pricing Model ("**CAPM**"), which is the most commonly adopted method of estimating the required rate of return for equity. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk ("**Beta**") times equity market premium in general. We searched for companies with businesses in providing solar energy solution which included Sunrun Inc. (NasdaqGS: RUN), Vivint Solar Inc. (NYSE: VSLR), SunPower Corporation (NasdaqGS: SPWR), First Solar, Inc. (NasdaqGS: FSLR) and Sunworks, Inc. (NasdaqCM: SUNW) as references. These companies were used in estimating the beta for the company and, in turn, the cost of equity. We also considered risk-free rate, the expected return of the market in excess of the risk-free rate, adjustment to adjust the difference in country risk between the guideline companies and the subject company, small size premium and specific risks inherit to the subject company in order to develop the cost of equity of approximately 19%. The after-tax cost of debt was estimated upon the best lending rate of China at 4.9% (over 5 years period) as of 31 December 2019 (extracted from Bloomberg) and the standard tax rate of 25% which was approximately 4%. The WACC was then computed by summing the weighted cost of equity and after-tax cost of debt based on the Company's long term debt-to-equity ratio (0 for debt and 100% for equity). Based on the aforesaid formula, our analysis concluded that a discount rate of 19% was considered appropriate for valuing the subject company.

There were no material changes in the value of inputs or key assumptions adopted in the valuation except that the forecast revenue for 2020 was revised downward as a result of Comtec Renewable Energy's failure to achieve its business forecast in 2019. It was adopted in the Company's impairment analysis for 2018 annual audit that i) the revenue growth rate in 2021 to 2024 would be approximately 6% per annum; ii) the estimated gross margin in 2020 would be approximately 20%; iii) the perpetual growth rate would be approximately 3% per annum; and iv) the discount rate would be approximately 18%. The value in use calculation was based on the Group's estimation of Comtec Renewable Energy's future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. It is in line with the method used when the Company prepared the purchase price allocation valuation in relation to the acquisition of Comtec Renewable Energy (formerly known as Joy Boy HK Limited) which generated the values of the goodwill and there was no subsequent change in valuation method adopted.

The above additional information does not affect other information contained in the Announcements or the Annual Report and save for those disclosed above, all other information contained in the Annual Report remains unchanged.

By order of the board of
Comtec Solar Systems Group Limited
John Yi ZHANG
Chairman

Shanghai, the PRC, 18 May 2020

As at the date of this announcement, the executive Directors are Mr. John Yi Zhang and Mr. Zhang Zhen, the non-executive Director are Mr. Dai Ji and Mr. Qiao Fenglin, and the independent non-executive Directors are Mr. Leung Ming Shu, Mr. Ma Teng, Mr. Kang Sun and Mr. Xu Erming.