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CBK Holdings Limited

國茂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8428)

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

Reference is made to the annual report of CBK Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 March 2022 (the “**Annual Report**”). This announcement is supplemental to, and should be read in conjunction with the Annual Report. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

In addition to the information disclosed in the Annual Report, the Board would like to provide the shareholders of the Company and the potential investors with the following supplementary information.

IMPAIRMENT LOSS IN RESPECT OF JINTIAN

Reasons and circumstances leading to recognition of impairment loss of inventories of Jintian

Reference is made to the announcement of the Company dated 11 October 2021 in relation to a stock deterioration (the “**Stock Deterioration**”), whereby it was disclosed that, among others, there was serious stock deterioration in its cold storage owned by Jintian, which was caused by the failure of the electric power supply system (the “**Failure**”) to the Group’s cold storage facility during the National Days Holidays in China.

The Failure was as a result of an orderly use electricity (the “**Orderly Use Electricity**”) imposed by the authority of the PRC at the area where Jintian was operated in early October 2021.

As a result of the Orderly Use Electricity and the resulting Stock Deterioration, Jintian recorded an impairment loss of inventories of approximately HK\$21.98 million, representing the total carrying amount of actual frozen products deteriorated for the year ended 31 March 2022. No external valuation was performed on the inventories, which was valued at lower of cost and net realisable value.

Reasons and circumstances leading to recognition of impairment loss in respect of goodwill, property, plant and equipment and right of use assets of Jintian

In accordance with the Hong Kong Financial Reporting Standards, the Company performed impairment test on Jintian for the year ended 31 March 2022.

The Company engaged Access Partner Consultancy & Appraisals Limited (“**Access Partner**”), an independent professional qualified valuer, to conduct a valuation to determine the recoverable amount of the cash-generating unit (“**CGU**”) of Jintian as at 12 November 2021, the date of classification of Jintian as discontinued operation (“**Date of Derecognition**”).

The valuation as at the Date of Derecognition (the “**Valuation**”) was based on income approach which computes the value in use of the CGU using cash flow projections covering a 5-year period to be derived from the CGU at the Date of Derecognition discounted by the weighted-average-cost-of-capital (“**WACC**”) of 22.19%.

The Group was conservative on the development and growth of the manufacture and sales of frozen aquatic products in the coming years due to the business uncertainties, including the (i) stable electricity supply, (ii) restraint on working capital of Jintian and; (iii) suspension of the production plan and shipping schedule for Jintian causing significantly cancellation of backlog orders from customers after the Orderly Use Electricity and the Stock Deterioration in October 2021. Therefore, the Group assumed the forecasted revenue of Jintian would be lower than its historical revenue, resulting in decreasing future free cash flows to firm (the “**FCFFs**”) and lower terminal value under the Valuation and thus, an impairment loss of approximately HK\$21.9 million in respect of the non-financial assets of the CGU (the “**Non-financial Assets**”) was recognised. As the value-in-use of the CGU at 12 November 2021 had no commercial value based on the Valuation prepared by Access Partner, all Non-financial Assets including goodwill, property, plant and equipment (excluding furniture and fixture with carrying amount of HK\$48,000 which are considered to be insignificant) and right-of-use asset as at 12 November 2021 were fully impaired.

Value of inputs adopted in assessing the impairment loss

Set out below are the value of major inputs of for the Valuation performed by Access Partner for the CGU:

Calculation of WACC

Cost of equity	26.29%
Cost of debt	11.93%
Weight of equity value of enterprise value	71.46%
Weight of debt value of enterprise value	28.54%
Corporate Tax Rate	25.00%
WACC	22.19%

Terminal growth rate	2.00%
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Valuation of value in use for the CGU	NO COMMERCIAL VALUE
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Major components and key assumptions that determine the FCFFs for the Valuation

Set out below is the major components and key assumptions that determine the FCFFs for the Valuation:

- (a) The forecasted revenues were determined with reference to the development and operations of Jintian. It is assumed that the forecasted revenue of Jintian for each of years 2022 to 2024 would be decreased as compared to revenue of Jintian recorded for the financial period from 18 May 2021 (being the date of completion of the acquisition of Jintian) to 12 November 2021 (being the Date of Derecognition) on an annualized basis primarily due to the effect of suspension of the production plan and shipping schedule for Jintian causing significantly cancellation of backlog orders from customers after the Orderly Use Electricity and the Stock Deterioration in October 2021. It is also assumed that the forecasted revenue of Jintian would be further decreased from year 2025 as one production line is expected to be wore out in year 2025;
- (b) The forecasted gross profit margin was assumed to be approximately 3%, which was determined with reference to the historical gross profit margin recorded for financial period from 18 May 2021 (being the date of completion of the acquisition of Jintian) to 12 November 2021 (being the Date of Derecognition), adjusted for non-recurring factors including (i) the offer of more favorable price for retaining overseas customers due to unexpected higher shipping costs; and (ii) the impact of the Orderly Use Electricity;
- (c) The forecasted administrative expenses were determined with reference to the historical administrative expenses of Jintian recorded for financial period from 18 May 2021 (being the date of completion of the acquisition of Jintian) to 12 November 2021 (being the Date of Derecognition); and
- (d) The forecasted corporate taxes were determined with reference to the corporate income tax imposed in the PRC (i.e. 25%).

General Assumptions under the Valuation

Set out below is the general assumptions under the Valuation:

- (a) There will be no major changes in the political, legal, economic or market conditions in the localities in which the CGU operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the CGU;
- (b) The CGU will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business operations;

- (c) The CGU has obtained all necessary permits, business certificates, licenses and legal approvals to operate the business and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the CGU operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;
- (d) Upon expiry of the current permits, business certificates, licenses and/or legal approvals, the CGU is able to renew all such documents to operate the business with de minimis expenses; and
- (e) The tax rate applied on net profit was corporate tax rate in China at 25%.

Subsequent changes in the valuation method

At the date of entering the equity transfer agreement for acquisition of Jintian in December 2020, the market approach was adopted to value CGU. To the best of the knowledge, information and belief of the Company, Jintian commenced business since May 2020. The Board considered that the application of the market approach is an appropriate approach as it introduces objectivity in application as publicly available inputs are used and few or no assumptions are needed due to the operating history of Jintian is relatively short. For details, please refer to the announcements of the Company dated 23 December 2020 and 12 March 2021.

At the Date of Derecognition, the market approach, asset approach and income approach were considered to value the CGU. After discussion with Access Partner, the income approach was considered to be the most appropriate valuation approach as it can reasonably capture the future income according to the financial projection or in line with the business plan. Nonetheless, both asset approach and market approach were considered not suitable at the Date of Derecognition due to the fact that these two approaches would not be able to capture the adverse impact of the Failure on Jintian's cold storage facility which is a major part of the production line.

PROFIT GUARANTEE OF JINTIAN

Reference is made to the announcement of the Company dated 23 December 2020 in relation to the acquisition of Jintian, whereby it was disclosed that, among others, Liang YuLin (being the vendor) undertakes to Smart Sino Enterprises Limited (being the purchaser) that the audited net profit (after deduction of extraordinary items) of the Jintian for the year ended 31 December 2020 will be no less than RMB4,000,000 (the “**Guaranteed Profit**”).

The Board would like to supplement that the Guaranteed Profit was met.

By order of the Board
CBK Holdings Limited
CHOW Yik
Chairman and Executive Director

Hong Kong, 21 September 2022

As at the date of this announcement, the chairman and an executive Director is Mr. CHOW Yik, the executive Directors are Mr. CHAN Lap Ping, Ms. HO Oi Kwan and Mr. TSUI Wing Tak and the independent non-executive Directors are Mr. CHAN Kwan Yung, Mr. CHONG Alex Tin Yam and Ms. WONG Syndia D.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk for at least seven days from the date of its publication and on the website of the Company at www.cbk.com.hk.

In the case of inconsistency, the English text of this announcement shall prevail over the Chinese text.