LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP COMPANY LIMITED
枋潪國際集團控股有限公司
(a company incorporated in the Cayman Islands with limited liability)
(Stock Code: 1355)

SUPPLEMENTAL FINANCIAL INFORMATION IN RELATION TO 2023 ANNUAL REPORT

Reference is made to the annual report for the year ended 31 December 2023 ("**FY2023**") published on 30 April 2024 (the "**Annual Report**") of Legend Strategy International Holdings Group Company Limited (the "**Company**").

IMPAIRMENT LOSSES RECORDED FOR FY2023

As disclosed in the Annual Report, the company recorded impairment losses on non-financial assets of approximately HK$41,760,000 for FY2023 (the "**Impairment Losses**") composed of impairment losses recognized in respect of (1) property, plant and equipment (the "**PPE**") of approximately HK$6,796,000; (2) right-of-use assets (the "**ROUAs**") of approximately HK$33,106,000; and (3) goodwill (the "**Goodwill**") of approximately HK$1,858,000.

For the purpose of the impairment assessments and the determination of the recoverable amounts of the PPE, ROUAs and Goodwill as at 31 December 2023, the management of the Group estimated the recoverable amounts of the cash generating units ("**CGUs**") to which these assets belong, with the support of valuations (the "**Valuations**") performed by an independent valuer (the "**Valuer**") engaged by the Company to perform valuations of these CGUs. These CGUs are accommodation projects being operated by the Group. The Impairment Losses were determined by comparing the recoverable amounts of these CGUs and their carrying amounts as follows:

	2023 Carrying value HKD'000	**Valuations HKD'000**	**Impairment Losses HKD'000**
Wuhan Branch			
- ROUA	56,229	25,955	30,274
- PPE	12,013	5,545	6,468
	68,242	31,500	36,742
Huizhou Branch			
- ROUA	4,366	1,534	2,832
- PPE	504	176	328
- Goodwill	1,858	-	1,858
	6,728	1,710	5,018
Total	74,970	33,210	41,760

Breakdown of the Impairment Losses by asset type is as follows:

	ROUA[1]	**PPE[2]**	**Goodwill[3]**	**Total**
	HKD'000	**HKD'000**	**HKD'000**	**HKD'000**
Wuhan Branch	30,274	6,468	-	36,742
Huizhou Branch	2,832	328	1,858	5,018
	33,106	6,796	1,858	41,760

1 Right-of-use assets represented the lease-and-operate branches in the following locations: (i) Wuhan, where the lease was agreed with 武漢公民酒店發展有限公司 (transliterated as Wuhan Citizen Hotel Development Co., Ltd.) for a period of 15 years from 23 July 2020, further details of which were disclosed in the Company's circular dated 26 March 2020; and (ii) Huizhou, where the lease was agreed with a related company controlled by Mr. Yuan Fuer, the controlling shareholder of the Company, for a period of 10 years commencing from January 2018, further details of which were disclosed in the Company's announcement dated 31 January 2019.

2 Property, plant and equipment represented leasehold improvements, office equipment and furniture and fixtures used in the Wuhan Branch and Huizhou Branch.

3 Goodwill was recognized during the year ended 31 December 2018 in the course of acquisition of Huizhou Hazens East Resort Travel Services Limited (惠州合正東部灣旅遊服務有限公司) which operates the Huizhou Branch, further details of which were disclosed in the Company's announcement dated 30 April 2018.

Reasons for and circumstances leading to recognition of Impairment Losses

As at 31 December 2023, based on the Valuations, the Impairment Losses were attributable to the Group's accommodation operation of Wuhan Branch and Huizhou Branch.

Notwithstanding the gradual reduction of the impact of the COVID-19 pandemic in 2023 and the reopening of China's borders with other international regions which caused the hotel business to rebound rapidly amid the instant release of consumers' long-accumulated demand for outbound travelling, Wuhan Branch and Huizhou Branch had not recorded an increase in revenue, in contrast to the Group's branches in other locations that had benefited from the improved market conditions. Due to fierce competitions, Wuhan Branch and Huizhou Branch had not been able to retain and acquire long-stay customers, which customarily contribute a stable portion of revenue. Specifically, since the Wuhan region had been deeply affected by COVID-19 pandemic, commercial projects and business activities around Wuhan Branch were not carried out or completed as planned. Such adverse factors had inhibited Wuhan Branch and Huizhou Branch from rebounding as the market recovered during 2023. Accordingly, Impairments were made for Wuhan Branch and Huizhou Branch after the Group's assessment during the year ended 31 December 2023.

Valuation method used

The Valuations were conducted by Valuer using discounted cash flow ("**DCF**") method which is commonly adopted for impairment assessment of CGUs.

The recoverable amounts have been determined on the basis of their value-in-use using the DCF method. The cash flow forecast underlying the Valuations of Huizhou Branch and Wuhan Branch (the "**Cashflow Forecasts**") were derived from the most recent financial budgets and estimated future cash flows covering the remaining terms of respective lease as approved by the management, which were then discounted by applying a pre-tax discount rate. Other key assumptions included occupancy rates, average room rates, etc. which are determined based on the Group's past performance and management expectations for the market developments. There has been no subsequent change to the valuation method used in the Valuations.

Significant inputs, bases and key assumptions

The following table summarises the significant inputs to the valuation of the CGUs:

Wuhan Branch

	31 December 2023	31 December 2022
Expected average occupancy rate	58.51%	57.50%
Expected average room rate	RMB 330	RMB 440
Post-tax discount rate	9.93%	11.66%

Huizhou Branch

	31 December 2023	31 December 2022
Expected average occupancy rate	20.76%	77.12%
Expected average room rate	RMB 261	RMB 321
Post-tax discount rate	9.93%	11.66%

The management had developed cash flow projections with reference to historical average occupancy rate and average room rate of previous years and taking into account management's expectations of future market developments.

Discount rate was estimated to be 9.93% (2022: 11.66%), which was before tax and represented the current market assessment of the risks specific to the CGUs, taking into consideration the time value of money and individual risks of the underlying assets that had not been incorporated in the cash flow estimates. The discount rate calculation was based on the specific circumstances of the Group and its operating segments and was derived from its weighted average cost of capital (the ''**WACC**''). The WACC took into account both debt capital and equity capital.

During preparation of the Cashflow Forecasts, given the current economic uncertainty, the management of the Group took into account the current performance of its accommodation operations. In particular, the management of the Group had taken into account the (1) latest economic conditions in the PRC; (2) the latest available information of the performance of its hotel operations subsequent to 31 December 2023; and (3) the information relating to PRC economy forecast and incidents impacting the world economy such as continuing conflicts between Russia and Ukraine, Israel and Palestine, the tension between the west and the PRC, the interest rate changes of the United States etc. Given these facts and 4 circumstances, the management of the Group had timely revisited and updated the financial data and assumptions used in the preparation of the Cashflow Forecasts to reflect the best estimates and available information of the Group's non-financial assets. Furthermore, the management of the Group adopted the conservative approach throughout the forecasted period of the Cashflow Forecasts, including but not limited to (1) adopting historical actual room rate for the hotel rooms recorded in 2023; (2) adopting historical occupancy rate of hotel rooms recorded in 2023; (3) assuming no food and beverage revenue in the forecasted period of the Cashflow Forecasts, for Wuhan Branch, as there was minimal food and beverage revenue recorded during FY2023; and (4) assuming no revenue for long stay contract customers in the forecasted period of the Cashflow Forecasts, for Huizhou Branch, as no new long stay contract was entered into during FY2023.

For and on behalf of the Board
Legend Strategy International Holdings Group Company Limited
Yuan Fuer
Chairman

Hong Kong, 23 August 2024

As at the date of this announcement, the board of directors comprises:

Executive director:
Ms. Lee Tsz Yan

Non-executive directors:
Mr. Yuan Fuer (Chairman)
Mr. Hu Xinglong

Independent non-executive directors:
Mr. Wu Jilin
Mr. Lam Cheung Shing Richard
Mr. So Yin Wai