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RISECOMM

瑞斯康

RISECOMM GROUP HOLDINGS LIMITED

瑞斯康集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1679)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Reference is made to the annual report of Risecomm Group Holdings Limited (the “**Company**” together with its subsidiaries, the “**Group**”) for the year ended 31 December 2022 (“**FY2022**”) published on 27 April 2023 (the “**Annual Report**”). Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

In addition to the information provided in the Annual Report, the Company wishes to provide further information in relation to the impairment losses of goodwill and intangible assets. This supplemental announcement should be read in conjunction with Note 21 to the Notes to the Consolidated Financial Statements as set out in the Annual Report.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

In FY2022, in accordance with the relevant requirements under “Hong Kong Accounting Standard 36 — Impairment of Assets” (“**HKAS 36**”) and “Hong Kong Accounting Standard 38 — Intangible Assets”, the Group performed impairment test with assistance of an external valuation firm for the goodwill and intangible assets arising from the acquisitions of Green Harmony (the “**Valuation**”).

After conducting impairment tests, the Group recognized (i) impairment loss of goodwill of approximately RMB20.7 million for FY2022 (for the year ended 31 December 2021 (“**FY2021**”): nil); and (ii) impairment losses of intangible assets of approximately RMB46.7 million for FY2022 (FY2021: nil). After which, the carrying amount of the SMIA cash-generating unit (“**CGU**”) has been reduced to recoverable amount.

Selection of valuation method

The recoverable amounts for both FY2022 and FY2021 have been determined based on value-in-use (“VIU”) calculation using income approach. The VIU calculation is based on the estimated future cash flows expected to be derived from the asset or CGU discounted to its present value that reflects current market assessments of the time value of money and the risks specific to the asset or CGU taking into consideration of the financial budgets approved by the Board. Selection of the valuation method was based on, among other things, the purpose of the valuation, the resulting basis of value, the availability and reliability of information related to the SMIA CGU and the requirements under HKAS 36. Income approach was considered to be the most suitable valuation method as it can most appropriately arrive at the VIU of the SMIA CGU. The income approach was consistently adopted in both FY2022 and FY2021. There were no subsequent changes in the valuation method used.

Significant value of inputs, basis and key assumptions

The below table summarizes the significant value of inputs of the Valuation on the SMIA CGU:

	2023 financial budget approved by the Board in FY2022 (“2023 Financial Budget”)	2022 financial budget approved by the Board in FY2021 (“2022 Financial Budget”)
Revenue growth rate during the four-year period of projection	10.00%–57.97%	10.00%–26.16%
Net operating profit after tax (“NOPAT”) margin during the four-year period of projection	(0.98%)–7.97%	10.23%–10.78%
Terminal growth rate beyond the four-year period of projection	2.0%	2.0%
Pre-tax discount rate	19.83%	21.29%
Value-in-use	Approximately RMB63,210,000	Approximately RMB213,800,000

The calculation of VIU used cash flow projections based on financial budgets approved by the Board covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated terminal growth rate of 2.0% (FY2021: 2.0%) which does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 19.83% (FY2021: 21.29%), which reflect specific risks relating to the relevant business. Other key assumptions for the VIU calculation relate to revenue growth rate and NOPAT margin for the four-year budget period, which take into account the SMIA CGU's historical performance, existing backlog contracts, sales pipelines and the management's business development plan built upon industry trends.

Reasons for significant changes in value of inputs, basis and key assumptions

In FY2021, the SMIA CGU recorded a revenue of approximately RMB199.9 million. The management of the SMIA business segment (the “**Management**”) estimated the revenue growth rate of the SMIA CGU to be 10.00%–26.16% and the NOPAT margin to be 10.23%–10.78%. Based on which, the VIU of the SMIA CGU was estimated to be approximately RMB213,800,000 in the 2022 Financial Budget. The 2022 Financial Budget was mainly drafted based on the Management's best estimate at that time of the SMIA CGU's future financial performance, including the estimate of future sales pipelines, contract values, costs and operating expenses.

In FY2022, there was a significant decrease in revenue and net profit of the SMIA CGU as compared to FY2021, which was primarily attributable to the unanticipated limitation imposed upon the Management in project sourcing and project delivery as a consequence of China's highly restrictive Pandemic control measures (the “**Control Measures**”) which took place during the first half of 2022. Certain sales pipelines originally forecast in the 2022 Financial Budget were ceased and/or delayed as a consequence of the Control Measures. This resulted in the significant decrease in revenue of the SMIA CGU to approximately RMB61.7 million in FY2022, which in turn resulted in the significant decrease in net profit and recoverable amount of assets of the SMIA CGU.

In the 2023 Financial Budget, the Management estimated the revenue growth rate of the SMIA CGU to be 10.00%–57.97% with particularly high growth rate of 57.97% in FY2023, 51.61% in FY2024, and 20.00% in FY2025 mainly due to the anticipation that the SMIA CGU's revenue would gradually resume to a normal level between FY2023 and FY2025 without the impact of the Control Measures (the “**Resumption**”). Thereafter, the revenue growth rate of the SMIA CGU was estimated to be at 10.00%, which was at a same level as originally estimated in the 2022 Financial Budget. The NOPAT margin of the SMIA CGU was estimated be (0.98%)–7.97%, as the Resumption was estimated to take time and net loss of the SMIA CGU was expected to continue in FY2023. A larger proportion of expenses relative to revenue of the SMIA CGU was estimated for prudence. Based on which, the VIU of the SMIA CGU decreased to approximately RMB63,210,000 in the 2023 Financial Budget.

There were no significant changes in terminal growth rate and pre-tax discount rate of the SMIA CGU.

The above additional information as set out in this announcement does not affect any other information contained in the Annual Report. Save as disclosed in this announcement, all other information in the Annual Report remains unchanged.

By order of the Board
Risecomm Group Holdings Limited
Guo Lei
Chairman and Executive Director

Hong Kong, 12 July 2023

As at the date of this announcement, the executive Directors are Ms. Guo Lei, Mr. Lau Wai Leung, Alfred and Mr. Jiang Feng, the non-executive Directors are Mr. Yu Lu and Mr. Ding Zhigang, and the independent non-executive Directors are Mr. Victor Yang, Ms. Lo Wan Man and Mr. Zou Heqiang.