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Legend Upstar Holdings Limited
 駿 聯 控 股 有 限 公 司
 (Incorporated in the Cayman Islands with limited liability)
 (Stock Code: 459)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “Board”) of Legend Upstar Holdings Limited (the “Company”) announces the audited consolidated annual results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022 together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

| | Note | 2022 HK\$'000 | 2021 HK\$'000 |
|---|------|------------------|------------------|
| Revenues | 3(a) | 450,083 | 541,319 |
| Other loss, net | 4 | (8,503) | (1,797) |
| Staff costs | | (221,099) | (307,853) |
| Rebate incentives | | (114,816) | (73,692) |
| Advertising and promotion expenses | | (9,452) | (8,430) |
| Amortisation of right-of-use assets | | (27,723) | (26,347) |
| Depreciation of property and equipment | | (3,793) | (1,738) |
| Net impairment losses on financial assets | | (6,237) | (7,321) |
| Other operating costs | 5 | (50,519) | (46,349) |
| Operating profit | | 7,941 | 67,792 |
| Bank interest income | 6 | 1,202 | 249 |
| Interest on bank loans | 6 | (10,734) | (3,129) |
| Interest on lease liabilities | 6 | (653) | (476) |
| Interest on convertible note | 6 | - | (1,829) |
| (Loss)/profit before taxation | | (2,244) | 62,607 |
| Taxation | 7 | (1,408) | (12,723) |
| (Loss)/profit for the year | | (3,652) | 49,884 |

CONSOLIDATED INCOME STATEMENT (Continued)*For the year ended 31 December 2022*

| | <i>Note</i> | 2022 HK\$'000 | 2021 HK\$'000 |
|---|-------------|--------------------------------|------------------|
| (Loss)/profit for the year attributable to: | | | |
| Equity holders | | (3,689) | 49,839 |
| Non-controlling interests | | 37 | 45 |
| | | (3,652) | 49,884 |
| (Loss)/earnings per share | 9 | HK cent | HK cents |
| Basic | | (0.204) | 2.761 |
| Diluted | | (0.204) | 2.690 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the year ended 31 December 2022*

| | 2022 | 2021 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| (Loss)/profit for the year | (3,652) | 49,884 |
| Other comprehensive income for the year | | |
| <i>Item that will not be reclassified to profit or loss</i> | | |
| Remeasurement of post-employment benefit obligation | 3,524 | - |
| Total comprehensive (loss)/income for the year | (128) | 49,884 |
| Total comprehensive (loss)/income for the year attributable to: | | |
| Equity holders | (165) | 49,839 |
| Non-controlling interests | 37 | 45 |
| | (128) | 49,884 |

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

| | <i>Note</i> | 2022 HK\$'000 | 2021 HK\$'000 |
|--|-------------|-------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property and equipment | | 8,278 | 3,626 |
| Right-of-use assets | | 37,169 | 26,361 |
| Investment properties | 10 | 1,060,500 | 974,200 |
| Deposits | | - | 28,401 |
| Loan receivables | 11 | 10,000 | 10,000 |
| Other financial assets at amortised cost | | - | 4,036 |
| Deferred tax assets | | 12,309 | 6,349 |
| | | <u>1,128,256</u> | <u>1,052,973</u> |
| | | ----- | ----- |
| Current assets | | | |
| Trade and other receivables | 12 | 125,250 | 142,271 |
| Loan receivables | 11 | 352,370 | 307,721 |
| Other financial assets at amortised cost | | - | 2,337 |
| Tax recoverable | | 1,863 | 2,146 |
| Cash and cash equivalents | | 212,785 | 285,825 |
| | | <u>692,268</u> | <u>740,300</u> |
| | | ----- | ----- |
| Total assets | | <u><u>1,820,524</u></u> | <u><u>1,793,273</u></u> |
| | | ===== | ===== |
| EQUITY AND LIABILITIES | | | |
| Equity holders | | | |
| Share capital | | 180,528 | 180,528 |
| Share premium | | 745,086 | 745,086 |
| Reserves | | 208,522 | 205,297 |
| | | <u>1,134,136</u> | <u>1,130,911</u> |
| Non-controlling interests | | <u>6,990</u> | <u>6,953</u> |
| | | ----- | ----- |
| Total equity | | <u><u>1,141,126</u></u> | <u><u>1,137,864</u></u> |
| | | ===== | ===== |

CONSOLIDATED BALANCE SHEET (Continued)*As at 31 December 2022*

| | <i>Note</i> | 2022 HK\$'000 | 2021 HK\$'000 |
|--|-------------|------------------|------------------|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 8,596 | 6,445 |
| Lease liabilities | | 17,732 | 11,213 |
| Bank loans | 13 | 403,595 | 367,728 |
| Other payables | | 7,689 | - |
| | | <u>437,612</u> | <u>385,386</u> |
| | | ----- | ----- |
| Current liabilities | | | |
| Trade and other payables | 14 | 165,332 | 186,740 |
| Amounts due to non-controlling interests | | 420 | 420 |
| Lease liabilities | | 21,634 | 20,736 |
| Bank loans | 13 | 46,356 | 54,246 |
| Tax payable | | 8,044 | 7,881 |
| | | <u>241,786</u> | <u>270,023</u> |
| | | ----- | ----- |
| Total liabilities | | <u>679,398</u> | <u>655,409</u> |
| | | ----- | ----- |
| Total equity and liabilities | | <u>1,820,524</u> | <u>1,793,273</u> |
| | | ===== | ===== |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The Company is a limited liability company incorporated in the Cayman Islands and listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its head office and principal place of business in Hong Kong is Rooms 2505-8, 25th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong.

The principal activities of the Group are the provision of property agency services in respect of commercial and industrial properties and shops, properties investment, credit business and securities investment in Hong Kong.

By a special resolution passed at the annual general meeting of the Company held on 22 June 2022, the English name of the Company was changed from “Midland IC&I Limited” to “Legend Upstar Holdings Limited” and the dual foreign name in Chinese of the Company was changed from “美聯工商舖有限公司” to “駿聯控股有限公司” (the “Change of Company Name”).

Details of the Change of Company Name were set out in the announcements of the Company dated 29 March 2022 and 22 July 2022, and the circular of the Company dated 29 April 2022.

This audited consolidated annual results is presented in Hong Kong dollars, unless otherwise stated.

This audited consolidated annual results has been approved by the Board on 27 March 2023.

Significant event and transactions completed during the year

During the year, the Group has completed the acquisition of investment properties of HK\$97,601,000 (including transaction costs) (2021: HK\$163,291,000).

2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair values.

(a) New standards, interpretation and amendments effective in 2022

The adoption of the new or revised standards, interpretations and amendments does not have a material impact on the Group’s results of operations or financial position.

(b) New standards, interpretation and amendments which are not yet effective

The Group has not early applied the new or revised standards, interpretations and amendments that have been issued but not yet effective. The adoption of these new or revised standards, interpretations and amendments is not expected to have a material impact on the Group’s results of operation or financial position.

3 Revenues and segment information

(a) Revenues

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
| Revenues from contracts with customers within the scope of HKFRS 15 | | |
| Agency fee | 389,058 | 498,568 |
| | ----- | ----- |
| Revenues from other sources | | |
| Rental income | 25,591 | 21,157 |
| Interest income from credit business | 35,375 | 19,706 |
| Interest income from securities investment | 59 | 1,888 |
| | ----- | ----- |
| | 61,025 | 42,751 |
| | ----- | ----- |
| Total revenues | 450,083 | 541,319 |
| | ===== | ===== |

3 Revenues and segment information (Continued)

(b) Segment information

The chief operating decision-makers have been identified as the executive directors of the Company (the “Executive Directors”). The Executive Directors review the Group’s internal reports in order to assess performance and allocate resources. The Executive Directors determine the operating segments based on these reports.

The Executive Directors assess the performance based on the nature of the Group’s businesses principally located in Hong Kong, which comprises property agency businesses for commercial and industrial properties and shops, properties investment, credit business and securities investment.

| | Year ended 31 December 2022 | | | | | | |
|--|-----------------------------|-----------------------|----------------|-----------------------|-----------------|-----------------------|----------------|
| | Property agency | | | Properties investment | Credit business | Securities investment | Total |
| | Commercial properties | Industrial properties | Shops | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenues | 167,334 | 95,395 | 137,758 | 25,591 | 35,375 | 59 | 461,512 |
| Inter-segment revenues | (2,768) | (5,673) | (2,988) | - | - | - | (11,429) |
| Revenues from external customers | 164,566 | 89,722 | 134,770 | 25,591 | 35,375 | 59 | 450,083 |
| Timing of revenue recognition | | | | | | | |
| - At a point in time | 164,566 | 89,722 | 134,770 | - | - | - | 389,058 |
| Rental income | - | - | - | 25,591 | - | - | 25,591 |
| Interest income | - | - | - | - | 35,375 | 59 | 35,434 |
| | 164,566 | 89,722 | 134,770 | 25,591 | 35,375 | 59 | 450,083 |
| Segment results | (4,123) | 1,282 | 826 | 6,261 | 25,701 | 234 | 30,181 |
| Fair value loss on investment properties | - | - | - | (11,301) | - | - | (11,301) |
| Amortisation of right-of-use assets | (10,625) | (7,590) | (9,508) | - | - | - | (27,723) |
| Depreciation of property and equipment | (1,141) | (1,471) | (1,106) | (67) | (8) | - | (3,793) |
| Net (impairment losses)/reversal of impairment on financial assets | (5,396) | 2,091 | (2,932) | - | - | - | (6,237) |
| Additions to non-current assets | 5,081 | 1,292 | 1,802 | 69,222 | 34 | - | 77,431 |

For the purpose of segmental information analysis, expenditures incurred for leases are not regarded as capital expenditures.

3 Revenues and segment information (Continued)

(b) Segment information (Continued)

| | Year ended 31 December 2021 | | | | | | |
|--|-----------------------------|-----------------------|----------|-----------------------|-----------------|-----------------------|----------|
| | Property agency | | | Properties investment | Credit business | Securities investment | Total |
| | Commercial properties | Industrial properties | Shops | | | | |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Segment revenues | 162,860 | 152,729 | 204,636 | 21,157 | 19,706 | 1,888 | 562,976 |
| Inter-segment revenues | (6,141) | (7,456) | (8,060) | - | - | - | (21,657) |
| Revenues from external customers | 156,719 | 145,273 | 196,576 | 21,157 | 19,706 | 1,888 | 541,319 |
| Timing of revenue recognition | | | | | | | |
| - At a point in time | 156,719 | 145,273 | 196,576 | - | - | - | 498,568 |
| Rental income | - | - | - | 21,157 | - | - | 21,157 |
| Interest income | - | - | - | - | 19,706 | 1,888 | 21,594 |
| | 156,719 | 145,273 | 196,576 | 21,157 | 19,706 | 1,888 | 541,319 |
| Segment results | 27,904 | 14,575 | 39,014 | 11,140 | 13,475 | 1,782 | 107,890 |
| Fair value loss on investment properties | - | - | - | (2,691) | - | - | (2,691) |
| Amortisation of right-of-use assets | (10,274) | (6,650) | (9,423) | - | - | - | (26,347) |
| Depreciation of property and equipment | (112) | (608) | (767) | (65) | (6) | - | (1,558) |
| Net reversal of impairment/(impairment losses) on financial assets | 220 | (3,572) | (3,969) | - | - | - | (7,321) |
| Additions to non-current assets | 115 | 1,746 | 201 | 191,737 | 3 | - | 193,802 |

The Executive Directors assess the performance of the operating segments based on a measure of operating results from each reportable segment. Fair value gain on convertible note, government subsidy, corporate expenses, bank interest income, interest on bank loans, interest on convertible note and taxation are not included in the segment results.

Revenues between segments arose from transactions which are carried out on terms with reference to market practice. Revenues from external customers reported to the Executive Directors are measured in a manner consistent with that in the consolidated income statement. The revenue from external customers is the same as the total revenue per consolidated income statement.

3 Revenues and segment information (Continued)

(b) Segment information (Continued)

A reconciliation of segment results to (loss)/profit before taxation is provided as follows:

| | 2022 | 2021 |
|---|-----------------|-------------|
| | HK\$'000 | HK\$'000 |
| Segment results for reportable segments | 30,181 | 107,890 |
| Fair value gain on convertible note | - | 517 |
| Government subsidy | 2,591 | - |
| Corporate expenses | (25,484) | (41,091) |
| Bank interest income | 1,202 | 249 |
| Interest on bank loans | (10,734) | (3,129) |
| Interest on convertible note | - | (1,829) |
| | <hr/> | <hr/> |
| (Loss)/profit before taxation per consolidated income statement | (2,244) | 62,607 |
| | <hr/> <hr/> | <hr/> <hr/> |

Segment assets and liabilities exclude corporate assets and liabilities and deferred taxation, all of which are managed on a central basis. Set out below is an analysis of assets and liabilities by reportable segment:

| As at 31 December 2022 | | | | | | | |
|------------------------|-----------------------|-----------------------|----------|-----------------------|-----------------|-----------------------|-----------|
| | Property agency | | | Properties investment | Credit business | Securities investment | Total |
| | Commercial properties | Industrial properties | Shops | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | | | | |
| Segment assets | 56,103 | 49,556 | 57,040 | 1,063,132 | 364,047 | - | 1,589,878 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Segment liabilities | 66,844 | 61,915 | 51,781 | 20,865 | 7,564 | 259 | 209,228 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

| As at 31 December 2021 | | | | | | | |
|------------------------|-----------------------|-----------------------|----------|-----------------------|-----------------|-----------------------|-----------|
| | Property agency | | | Properties investment | Credit business | Securities investment | Total |
| | Commercial properties | Industrial properties | Shops | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | | | | |
| Segment assets | 37,334 | 73,504 | 52,708 | 1,007,091 | 317,874 | 6,373 | 1,494,884 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Segment liabilities | 38,309 | 80,696 | 60,329 | 19,855 | 3,824 | 259 | 203,272 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

3 Revenues and segment information (Continued)

(b) Segment information (Continued)

Reportable segment assets are reconciled to total assets as follows:

| | 2022 | 2021 |
|---|-------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| Segment assets | 1,589,878 | 1,494,884 |
| Corporate assets | 218,337 | 292,040 |
| Deferred tax assets | 12,309 | 6,349 |
| | <u> </u> | <u> </u> |
| Total assets per consolidated balance sheet | 1,820,524 | 1,793,273 |
| | <u> </u> | <u> </u> |

Reportable segment liabilities are reconciled to total liabilities as follows:

| | 2022 | 2021 |
|--|-------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| Segment liabilities | 209,228 | 203,272 |
| Corporate liabilities | 461,574 | 445,692 |
| Deferred tax liabilities | 8,596 | 6,445 |
| | <u> </u> | <u> </u> |
| Total liabilities per consolidated balance sheet | 679,398 | 655,409 |
| | <u> </u> | <u> </u> |

4 Other loss, net

| | 2022 | 2021 |
|--|-------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| Fair value loss on investment properties (note 10) | (11,301) | (2,691) |
| Fair value gain on convertible note | - | 517 |
| Gain on disposal of other financial assets at amortised cost | 17 | 183 |
| Government subsidy | 2,591 | - |
| Others | 190 | 194 |
| | <u> </u> | <u> </u> |
| | (8,503) | (1,797) |
| | <u> </u> | <u> </u> |

For the year ended 31 December 2022, subsidy received under the Employment Support Scheme of HK\$2,591,000 was included in the government subsidy. There are no unfulfilled conditions or other contingencies attaching to these grants.

5 Other operating costs

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
| Office and branch operating expenses (remark) | 16,681 | 15,367 |
| Government rent and rates, building management fee (leased properties and investment properties) | 7,291 | 5,900 |
| Legal and professional fee | 14,756 | 14,072 |
| Trademark licensing fee | 1,380 | 2,129 |
| Insurance expenses | 4,493 | 3,639 |
| Bank charges | 1,343 | 940 |
| Auditor's remuneration | | |
| - audit services | 1,467 | 1,467 |
| - interim results review | 343 | 343 |
| Others | 2,765 | 2,492 |
| Other operating costs | <u>50,519</u> | <u>46,349</u> |

For the year ended 31 December 2022, direct operating expenses arising from investment properties that generated rental income and did not generate rental income were HK\$5,303,000 and HK\$198,000 respectively, in which HK\$2,736,000 were included in other operating costs.

For the year ended 31 December 2021, direct operating expenses arising from investment properties that generated rental income were HK\$4,472,000 in which HK\$2,058,000 were included in other operating costs.

Remark: Office and branch operating expenses include utilities expenses, communication expenses, printing and stationery, transportation, and repair and maintenance.

6 Finance income and costs

| | 2022 HK\$'000 | 2021 HK\$'000 |
|-------------------------------|------------------|------------------|
| Finance income | | |
| Bank interest income | 1,202 | 249 |
| Finance costs | | |
| Interest on bank loans | (10,734) | (3,129) |
| Interest on lease liabilities | (653) | (476) |
| Interest on convertible note | - | (1,829) |
| Finance costs, net | <u>(10,185)</u> | <u>(5,185)</u> |

7 Taxation

| | 2022 HK\$'000 | 2021 HK\$'000 |
|-----------------------|------------------|------------------|
| Current | | |
| Hong Kong profits tax | 5,217 | 6,403 |
| Deferred tax | (3,809) | 6,320 |
| | <u>1,408</u> | <u>12,723</u> |

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profit for the year, except for one subsidiary of the Company which is a qualifying corporation under the two-tiered profits tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong profits tax for this subsidiary was calculated at the same basis in 2021.

8 Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2022 (2021: Nil).

9 (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share is based on the following:

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
| (Loss)/profit attributable to equity holders | (3,689) | 49,839 |
| Effect on conversion of convertible note | - | 1,312 |
| (Loss)/profit for calculation of diluted (loss)/earnings per share | <u>(3,689)</u> | <u>51,151</u> |
| Weighted average number of shares for calculation of basic (loss)/earnings per share (thousands) | 1,805,283 | 1,805,283 |
| Effect on conversion of convertible note (thousands) | - | 96,486 |
| Weighted average number of shares for calculation of diluted (loss)/earnings per share (thousands) | <u>1,805,283</u> | <u>1,901,769</u> |
| Basic (loss)/earnings per share (HK cents) | <u>(0.204)</u> | <u>2.761</u> |
| Diluted (loss)/earnings per share (HK cents) | <u>(0.204)</u> | <u>2.690</u> |

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

9 (Loss)/earnings per share (Continued)

For the year ended 31 December 2022, the diluted loss per share is the same as the basic loss per share as the effect of the exercise of the share options would have an anti-dilutive effect.

For the year ended 31 December 2021, the weighted average number of shares was adjusted to assume conversion of all dilutive potential shares from the convertible note. The convertible note was assumed to have been converted into ordinary shares and the result was adjusted to eliminate the related expenses.

10 Investment properties

| | 2022 HK\$'000 | 2021 HK\$'000 |
|---|------------------|------------------|
| Opening net book amount | 974,200 | 813,600 |
| Additions | 48,801 | 128,491 |
| Addition of investment property through the acquisition of a subsidiary | 48,800 | 34,800 |
| Change in fair value recognised in the consolidated income statement (note 4) | (11,301) | (2,691) |
| Closing net book amount | <u>1,060,500</u> | <u>974,200</u> |

Investment properties of HK\$942,900,000 (2021: HK\$853,200,000) are pledged as security for the Group's bank loans (note 13).

11 Loan receivables

A maturity profile of the loan receivables as at the end of the reporting periods, based on the maturity date and net of provision, is as follows:

| | 2022 HK\$'000 | 2021 HK\$'000 |
|---------------------------------|------------------|------------------|
| Within 1 year | 352,370 | 307,721 |
| After 1 year but within 2 years | 10,000 | 10,000 |
| | <u>362,370</u> | <u>317,721</u> |

Loan receivables represent loan to employee and property mortgage loans granted to customers in Hong Kong.

The Group's loan receivables are denominated in Hong Kong dollars.

12 Trade and other receivables

Trade receivables mainly represent agency fee receivables from customers whereby no general credit terms are granted. The customers are obliged to settle the amounts due upon the completion of or pursuant to the terms and conditions of the relevant agreements. The aging analysis of the trade receivables is as follows:

| | 2022 HK\$'000 | 2021 HK\$'000 |
|----------------------------|------------------|------------------|
| Current (not yet due) | 88,886 | 112,516 |
| Less than 30 days past due | 9,505 | 5,617 |
| 31 to 60 days past due | 1,437 | 1,354 |
| 61 to 90 days past due | 1,704 | 1,825 |
| More than 90 days past due | 965 | 2,360 |
| | <u>102,497</u> | <u>123,672</u> |

13 Bank loans

The Group's bank loans are repayable as follows:

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
| Unsecured bank loan with repayment on demand clause - repayable within 1 year | 10,000 | - |
| Secured bank loans without repayment on demand clause | | |
| - repayable within 1 year | 36,356 | 54,246 |
| - repayable after 1 year but within 2 years | 109,356 | 14,246 |
| - repayable after 2 years but within 5 years | 294,239 | 353,482 |
| | <u>439,951</u> | <u>421,974</u> |
| | <u>449,951</u> | <u>421,974</u> |
| Categorised as | | |
| Current portion | 46,356 | 54,246 |
| Non-current portion | 403,595 | 367,728 |
| | <u>449,951</u> | <u>421,974</u> |

The Group's bank loans are denominated in Hong Kong dollars.

The bank loans are secured by investment properties of HK\$942,900,000 (2021: HK\$853,200,000) held by the Group (note 10) and corporate guarantee given by the Company.

13 Bank loans (Continued)

The Group has the following undrawn borrowing facilities:

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--------------------------|------------------|------------------|
| Floating rates | | |
| Expiring within one year | 93,000 | 65,000 |
| Expiring after one year | 60,000 | 40,000 |
| | <u>153,000</u> | <u>105,000</u> |

14 Trade and other payables

Trade payables include mainly the commissions and rebate payables to property consultants, co-operative estate agents and property buyers, which are due for payment only upon the receipt of corresponding agency fees from customers. These balances include commissions and rebate payables of HK\$23,050,000 (2021: HK\$19,865,000) in respect of which the corresponding agency fees have been received, and are due for payment within 30 days after year end, and all the remaining commissions and rebate payables are not yet due.

15 Event after the reporting period

Disposal of the entire equity interest in a subsidiary

On 7 March 2023, the Group entered into a provisional agreement to sell the entire equity interest of an indirect wholly owned subsidiary of the Company (including the assignment of the sale debt) at a consideration of HK\$33,500,000. The principal asset of this subsidiary is the entire interest in a property located at Shop No. 6 on Ground Floor, Cambridge Court, Nos. 84A-84H & 84J-84M Waterloo Road, Kowloon, Hong Kong.

The completion of the disposal shall take place on or before 3 May 2023.

Details of the disposal were set out in the Company's announcement dated 7 March 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group announces that for the year ended 31 December 2022, the Group recorded a loss attributable to equity holders of HK\$3,689,000 (2021: Profit attributable to equity holders of HK\$49,839,000).

During the reporting period, the substantial decline in the Group's financial results was mainly attributable to the adverse market conditions caused by the COVID-related restrictions and measures in Hong Kong, prolonged closure of the border between Hong Kong and Mainland China, interest rate hikes and poor investment sentiment, which led to a significant drop in the transaction value and volume of the non-residential properties in Hong Kong.

Economy Clouded by Multiple Factors, Devastating the Industrial, Office and Shop Market

The non-residential property market in Hong Kong witnessed a sharp decline in transaction activities in 2022. The three major segments of the non-residential property sector, namely, offices, industrial properties, and shops, all posted a significant drop in sales transactions. The weakness of the non-residential property market was impacted by multiple factors such as the poor economic conditions in Hong Kong, the slow pace of reopening of Hong Kong as compared with other cities, especially Singapore, the closing of the border between Hong Kong and Mainland China at that time, and the interest rate hikes by the US Federal Reserve.

Impacted by the lingering pandemic, the gross domestic product (GDP) of Hong Kong fell by 3.5% in 2022. Hong Kong has long been positioned as the bridge between Mainland China and the world, with the finance, tourism, and retail sectors as the pillars of the local economy. However, the closing of the border between Hong Kong and Mainland China during the pandemic hit the local economy hard and the retail sector was the first to bear the brunt. The COVID-related restrictions on the inbound travellers put in place for the year 2022 isolated Hong Kong from the world. Without leisure and business travellers, the tourism industry came to a standstill. Whereas Singapore was ahead of the game, relaxing the entry requirements for travellers in August 2022, which drove the resumption to normalcy for its tourism and economic activities. Business confidence took a deep dive as the fear of Hong Kong losing the competition to Singapore further intensified. Many international conferences, exhibitions, and mega events in 2022 including Oxfam Trailwalker and Standard Chartered Hong Kong Marathon could not be held as scheduled, harming Hong Kong's international image.

Additionally, the interest rate hikes also battered the non-residential property market. Central banks around the world have raised interest rate to curb inflation and maintain monetary stability, and it had a negative impact on the Hong Kong property market. For one thing, it increased the cost of borrowing, weakening the investment appetite for non-residential properties. For another, the soaring interest rate for fixed deposit of large amount drew the attention of the investors away from property investment.

During the reporting period, the contraction in business activities led to a reduction in market demand for office spaces. According to the figures from the Land Registry, the office segment recorded merely 817 sales transactions in 2022, down 38.8% from 1,335 sales transactions in 2021. Furthermore, interest rate hikes suppressed investment demand and led the landlords of industrial buildings to hold off project launches. In 2022, the number of sales transactions of industrial units fell 34.3% from that in 2021 to 2,501 units. The retail sector in Hong Kong was affected by the economic downturn and the sharp decline of inbound travellers. As a result, the shop segment did not fare well either. In 2022, the shop segment recorded only 1,176 sales transactions, representing a decline of 34.2% as compared with that in 2021.

Actively Implemented Diversification and Seized Property Investment Opportunities

The material decline in the number of sales and rental transactions of non-residential properties significantly impacted the Group's overall revenue and earnings. In addition, the residential property market was extremely quiet as well. Due to the sharp drop in the number of transactions in residential properties, the Group's referral commission from residential transactions dropped.

Despite these challenges, the Group was able to attain progress in another two business lines. During the reporting period, Legend Credit Limited (“Legend Credit”), the credit business unit of the Group, posted a growth in revenue and operating profit. Although the poor economic conditions led to the default of some property loans, the prudent loan-to-value ratio adopted by the Group has provided an adequate safety cushion in respect of credit risk. Furthermore, due to the Group’s effort in boosting the occupancy rate of its properties, the investment portfolio also made positive contributions. However, the financial results of the Group were dragged down by the revaluation of the investment properties, which led to a loss on revaluation of approximately HK\$11.3 million during the reporting period. During the market correction, the Group took advantage of the situation by bottom fishing and bought a property. This helped the Group strengthen its property investment portfolio.

OUTLOOK

Market Turnaround on the Horizon, Market Sentiment Gradually Warmed Up

The non-residential property sector in Hong Kong has recovered gradually, driven by the following key factors, including the reopening of border between Hong Kong and Mainland China, the recovery of the Hong Kong economy, the slowdown in interest rate hikes, the government’s launch of initiatives to compete for talents and its efforts to attract international enterprises to Hong Kong. However, the pace of recovery is slower than expected, and the non-residential property market may need some time to come back to the pre-pandemic level.

As Hong Kong relaxed most of the COVID-related restrictions in January 2023, the border between Hong Kong and Mainland China has been reopened, which is likely to stimulate the local tourism and cross-border business activities, thereby reviving the transactions of non-residential properties. This is expected to attract more businesses to establish a presence in Hong Kong or to expand their existing operation. Furthermore, the lifting of the COVID-related restrictions on the inbound travellers will help Hong Kong regain its status as an international city. The number of corporations operating and exhibitions taking place in Hong Kong is expected to continue to grow, which will drive up the demand for office and retail space, providing a boost to the non-residential property sector.

Government Actively Promotes Hong Kong, Talents and Businesses Poised to Return

At the end of 2022, the government launched the “Top Talent Pass Scheme”, which aimed at attracting highly skilled professionals from around the world to come to Hong Kong. It is likely to make it easier for the corporate sector to make hiring and plan for expansion, thus driving up the demand for office space. Moreover, some of these professionals may use Hong Kong as the base to start their own business ventures, creating new demand. The relaunch of the “Capital Investment Entrant Scheme” is expected to benefit Hong Kong economy as well. The government has also launched the “Hello Hong Kong” Campaign, distributing 500,000 air tickets and over a million Hong Kong Goodies visitor consumption vouchers as a way to attract travellers from all across the globe, which is likely to revitalise the local tourism and retail sectors.

In the meantime, the government has actively conducted foreign visits to promote Hong Kong’s strengths and attract international enterprises to do business in Hong Kong. In January 2023, the Chief Executive, John Lee, led a delegation of 30 notable figures, including senior officials and business leaders, to visit the Middle East, signing 6 agreements with Saudi Arabia to strengthen economic collaboration. During the visit, the government has invited Saudi Arabian oil company Aramco and its subsidiaries to invest and list in Hong Kong. If the listing comes through, it will further bolster Hong Kong’s reputation as a major international financial centre.

Threat of Inflation Persists Yet Interest Rate Hikes Are Moderating

In 2022, the global economy was plagued by rampant inflation, prompting central banks to raise the interest rate. The rapid acceleration of wage growth has exacerbated the risk of a wage-price spiral. However, there are indications that the inflationary pressures may be easing. The chairman of the US Federal Reserve, Jerome Powell, noted in February 2023 that the disinflationary process has already commenced. Nevertheless, following a series of substantial increases, the inflation rate remained higher than the US Federal Reserve’s target. Some of the causes of inflation, such as the Russia-Ukraine conflict, are unlikely to be resolved in the short term. Interest rate hikes by the US Federal Reserve remains a market concern, but the increase is likely to be more moderate than before.

The Group is Well-positioned for Hong Kong's Resumption of Normalcy

Despite the lingering market risks such as interest rate hikes and geopolitical tensions, the Group expects the performance of the non-residential property market to improve in 2023. It will continue to make an all-out effort in strengthening its market position. The landscape of the Hong Kong property market has changed profoundly during the 3-year pandemic. Following the completion of the Tuen Ma Line and the East Rail Line Cross-harbour Extension, the ongoing developments of the West Kowloon Cultural District, the emerging hybrid model of remote working and onsite working, and the popularisation of e-commerce, nowadays clients' demand for non-residential properties have changed. The Group is confident that our staff is well-positioned to take advantage of the ever-changing market conditions, match the demands of its clients and adapt its business strategy accordingly. Meanwhile, the Group will also deeply engage with Midland Holdings, a related company, to generate more referral commissions from the sales of the residential units.

The Group expects the business environments of the credit business and property investment portfolio to turn favourable as well. The Group will keep on seeking to boost the return on the investment portfolio by raising the occupancy rate and rents of its properties. In addition, the Group may make further acquisitions of properties with potential. For the credit business, demand for loans may grow when the Hong Kong economy normalises.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2022, the Group had cash and cash equivalents of HK\$212,785,000 (2021: HK\$285,825,000), whilst bank loans amounted to HK\$449,951,000 (2021: HK\$421,974,000).

The maturity profile of the Group's borrowings is set out as follows:

| | 2022 | 2021 |
|--|------------------------------|-----------------------|
| | HK\$'000 | HK\$'000 |
| Unsecured bank loan with repayment on demand clause - repayable within 1 year | 10,000 | - |
| | ----- | ----- |
| Secured bank loans without repayment on demand clause | | |
| - repayable within 1 year | 36,356 | 54,246 |
| - repayable after 1 year but within 2 years | 109,356 | 14,246 |
| - repayable after 2 years but within 5 years | 294,239 | 353,482 |
| | <u>439,951</u> | <u>421,974</u> |
| | <u><u>449,951</u></u> | <u><u>421,974</u></u> |

The Group's bank loans were secured by certain investment properties held by the Group of HK\$942,900,000 (2021: HK\$853,200,000). As at 31 December 2022, the Group had unutilised borrowing facilities amounting to HK\$153,000,000 (2021: HK\$105,000,000) from banks. The Group's cash and bank balances are deposited in Hong Kong dollars and the Group's bank loans are in Hong Kong dollars. The bank loans and overdraft facilities were granted to the Group on a floating rate basis.

As at 31 December 2022, the gearing ratio of the Group was 39.4% (2021: 37.1%). The gearing ratio is calculated on the basis of the Group's total bank loans over total equity of the Group.

The liquidity ratio of the Group, which represents a ratio of current assets over current liabilities, to reflect the adequacy of the financial resources, was 2.9 (2021: 2.7). The return on equity of the Group, which is the ratio of (loss)/profit for the year over total equity was -0.32% (2021: 4.38%).

Consistent with the overall treasury objectives and policy, the Group undertakes treasury management activities with respect to its available cash so as to generate investment return to enhance the Group's financial position. The criteria for selection of investments will include (i) the risk profile involved and not speculative in nature; (ii) the liquidity of an investment; (iii) the after tax equivalent yield of an investment; and (iv) structured products are prohibited. In line with its liquidity objectives, the Group invests mostly in liquid instruments, products or equities with good credit quality. Investment in fixed income products are structured in different maturity profile to cater for ongoing business development. As at 31 December 2022, the Group has short term bank deposits of HK\$183,194,000 (2021: HK\$72,715,000).

The Group's income and monetary assets and liabilities are mainly denominated in Hong Kong dollars. The directors of the Company (the "Directors") consider that the foreign exchange exposure of the Group is minimal.

Acquisition of properties

- (i) During the year ended 31 December 2021, the Group entered into a property acquisition agreement (the “Property Acquisition Agreement”) and a target company acquisition agreement (the “Target Company Acquisition Agreement”).

Pursuant to the Property Acquisition Agreement, the Group has agreed to acquire a shop in Hong Kong at a consideration of HK\$25.9 million. This transaction was completed in January 2022.

Pursuant to the Target Company Acquisition Agreement, the Group has agreed to acquire the entire issued shares (and including the assignment of sale debt) of the target company at a consideration of HK\$48.8 million. The principal asset of the target company is a shop in Hong Kong. This transaction was completed in April 2022.

Details of the acquisitions were set out in the Company’s announcements dated 18 August 2021, 2 December 2021, 17 December 2021, 3 January 2022 and 12 April 2022.

- (ii) In April 2022, the Group has further entered into a property acquisition agreement to acquire a shop in Hong Kong at a consideration of HK\$21.5 million. This transaction was completed in July 2022.

Details of the acquisition were set out in the Company’s announcements dated 13 April 2022 and 15 July 2022.

All the above properties are leased/intended to be leased out for rental income. The Group settled the above acquisitions using internal resources and/or external financing of the Group.

The financial position of the Group remains solid and healthy. The above acquisitions allow the Group to further broaden the income source and allow the Group to enjoy the possible capital appreciation of the properties.

With committed banking facilities in place and a solid base of recurrent income, the Directors are of the view that there are sufficient financial resources to satisfy the Group’s on-going working capital requirements.

Information on the Group’s loan portfolio and money lending business

As at 31 December 2022, the outstanding loan receivable was HK\$362.4 million (2021: HK\$317.7 million). The outstanding loan balance involved 41 cases (2021: 41 cases) with different borrowers. The single largest loan granted was HK\$55.0 million (representing approximately 15% of the outstanding loan portfolio as a whole) which was secured by a first mortgage over a residential property located at a prime location with a loan to value ratio of 79%. Amongst the outstanding loan portfolio, over 99% was secured by first mortgage over residential and non-residential properties, with overall loan to value ratio of approximately 67%. No impairment loss on loan was made during the year under review.

The credit business of the Group is operated by Legend Credit, the Group’s money lending unit. Such credit business provides a stable revenue and cashflow to the Group.

All loans advanced by Legend Credit are subject to approval on a case-by-case basis by a credit committee, which comprises members of the senior management who possess expertise in the property and financing fields. The credit assessment is based on the financial strength and repayment ability of the borrower, the collateral provided, prevailing market and competitive conditions and interest rate environment.

Interest rates on loans are offered based on the assessed degree of credit risks, loan period, loan amount, availability of funds, and any other relevant business relationships with the borrower.

The Group manages its loan portfolio to minimize concentration by the relationship between borrowers to maintain a diversified client base and lessen credit risk exposures. Legend Credit’s collection team will conduct periodic review of its portfolio to monitor risks of default.

Contingent Liabilities

As at 31 December 2022, the Company executed corporate guarantee amounting to HK\$618,400,000 (2021: HK\$527,650,000) as the securities for general banking facilities and bank loans granted to certain subsidiaries. As at 31 December 2022, banking facilities of HK\$449,951,000 were utilised by these subsidiaries (2021: HK\$421,974,000).

The Group has been involved in certain claims/litigations in respect of property agency services, including a number of cases in which third party customers alleged that certain Group's employees, when advising the customers, had made misrepresentations about the properties that the customers intended to acquire. Among which, a trial of a case with a claim of HK\$120,600,000 has commenced during the year ended 31 December 2022. The judgement of this case will be handed down in May 2023. After seeking legal advice, the management is of the opinion that either an adequate provision has been made in the consolidated financial statements to cover any potential liabilities or that no provision is required as based on the current facts and evidence there is no indication that an outflow of economic resources is probable.

Employee information

As at 31 December 2022, the Group employed 577 full-time employees (2021: 659).

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus, incentives tied in with profits and share options may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as education subsidies, medical and retirement benefits. In respect of staff development, both in-house and external training and development programmes are conducted on a regular basis.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions as set out in the Corporate Governance Code stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2022.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

On specific enquiries made, all the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions at all applicable times during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2022. The figures in this announcement of the Group's results for the year ended 31 December 2022 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF 2022 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.legendupstarholdings.com). The 2022 Annual Report will be despatched to the shareholders of the Company and will be published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

I would like to take this opportunity to express our sincere gratitude to our shareholders and clients, and to thank our management and staff for their efforts in weathering the pandemic during the reporting period. We hope every sector in Hong Kong can leave the memories of the pandemic behind and make a fresh start, seizing the opportunities brought about by the economic recovery to create a better future for the Group.

By Order of the Board
Legend Upstar Holdings Limited
WONG Ching Yi, Angela
Executive Director

Hong Kong, 27 March 2023

As at the date of this announcement, the Board comprises eight Directors, of which four are Executive Directors, namely Mr. WONG Kin Yip, Freddie, Ms. WONG Ching Yi, Angela, Mr. LO Chin Ho, Tony and Mr. WONG Alexander Yiu Ming; and four are Independent Non-Executive Directors, namely Mr. SHA Pau, Eric, Mr. HO Kwan Tat, Ted, Mr. WONG Chung Kwong and Mr. LI Wai Keung.