Reach New Holdings Limited
新達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8471)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT 2023

Reference is made to the announcement of Reach New Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 25 March 2024 in relation to its annual results for the year ended 31 December 2023 (the "**Announcement**") and the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**"). As disclosed in the Announcement and the 2023 Annual Report, the Company recorded a one time impairment of non-financial assets of RMB9.9 million, which was primarily impairment on property, plant and equipment, intangible assets and right-of-use assets (the "**Impairment Loss**") for the year ended 31 December 2023 ("**FY2023**"). The purpose of this supplemental announcement is to provide additional information in respect of the Impairment Loss for reference and consideration by the shareholders and investors of the Company. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement and/or the 2023 Annual Report.

REASONS FOR AND THE CIRCUMSTANCES LEADING TO THE IMPAIRMENT LOSS

As at 31 December 2023, the management of the Group noted that the Group's revenue decreased from approximately RMB67.3 million for the year ended 31 December 2022 ("**FY2022**") to approximately RMB66.3 million for FY2023, representing a decrease of approximately 1.5%, and that the Group's gross profit decreased from approximately RMB19.7 million for FY2022 to approximately RMB17.7 million for FY2023, representing a decrease of approximately 10.2%. The Group's loss for the year (before considering the Impairment Loss) was approximately RMB11.7 million for FY2023, as compared with that of approximately RMB6.8 million for FY2022. Due to the continuous loss of the Group, the management of the Group concluded that there was an indication for impairment and conducted impairment assessment (the "**2023 Impairment Assessment**") on recoverable amounts of property, plant and equipment, intangible assets and right-of-use assets directly held by and attributable to the Group.

As set out in Notes 14, 15 and 16 to the consolidated financial statements for FY2023 in the 2023 Annual Report, the Group recognised impairment of approximately RMB8,522,000, RMB696,000 and RMB719,000 for property, plant and equipment, intangible assets and right-of-use assets, respectively.

DETAILS OF KEY ASSUMPTIONS OF THE VALUATION AND REASONS FOR CHANGES

As at 31 December 2023, the Company carried out a review of the recoverable amounts of the property, plant and equipment, intangible assets and right-of-use assets attributable to the Group's cash-generating unit (the "**Group's CGU**") based on the value-in-use approach using discounted cash flow method by comparing the carrying values and the recoverable amounts of the Group's CGU. The key assumptions for the discounted cash flow method adopted in the impairment assessment are those regarding the discount rate, revenue growth rate and budgeted gross margin during the period, details of which are set out below:

1. Discount rate for the coming five years

Discount rates are estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the PRC garment market, and are determined based on weighted average cost of capital ("**WACC**"). The WACC is a generally accepted valuation approach and methodology in arriving a discount rate for discounted cash flow valuation. WACC comprises two components, namely cost of debt and cost of equity. It is calculated taking the relative weights of each component of the capital structure. It is computed using the formula below:

$$\text{WACC} = W_e \text{ x } R_e + W_d \text{ x } R_d \text{ x } (1 - T)$$

R_e	=	cost of equity
R_d	=	cost of debt
W_e	=	portion of equity value to enterprise value
W_d	=	portion of debt value to enterprise value
T	=	corporate tax rate

The rate used in 2023 Impairment Assessment to discount the cash flow projections for the Group's CGU was 18.15%, as compared to that adopted in the impairment assessment conducted in 2022 (the "**2022 Impairment Assessment**") at 17.5%. The minor increase in the discount rate was primarily due to the risk free rate adjustment. For further information in relation to the impairment assessment for the year ended 31 December 2023, please refer to the paragraph headed "Property, Plant and Equipment — Impairment Assessment" in Note 14 to the Consolidated Financial Statements in the 2023 Annual Report.

2. Budgeted revenue growth rate for the coming five years

The cash flow projections for the Group's CGU was prepared based on financial budgets approved by the management covering the next 5 years using the revenue growth rate at 0% in the 2023 Impairment Assessment, as compared to that at 1% in the 2022 Impairment Assessment. The reasons for such change are (i) the revenue derived from the Group's CGU has shown a decreasing trend since 2022 and (ii) the actual growth rate of revenue derived from the Group's CGU in 2023 was -1.5%, which is below the budgeted revenue growth rate at 1% as adopted in the 2022 Impairment Assessment. The decrease in revenue in 2023 was mainly due to the keen price competition in the market, pressure of increasing operating costs, continuous cost reduction measures taken by the Group's customers, trade protectionism and intensifying trade frictions between the PRC and the USA and the slowdown of growth in the economy in the PRC.

In light of the above, the Company adopted a more prudent approach by taking a budgeted revenue growth rate of 0% in the 2023 Impairment Assessment, which does not exceed the average growth rate for the PRC garment industry, where such growth rate is based on market intelligence reports.

3. **Budgeted gross margin for the coming five years**

The budgeted gross margin is determined based on the Group's CGU's past performance, management expectations for the market development and volatility in financial markets including potential disruptions of the Group's operations.

Considering the Group's gross margin at approximately 29.3% for FY2022, the Group adopted a budgeted gross margin at 29% in the 2022 Impairment Assessment. During FY2023, the Group's revenue decreased by 1.5% while the cost of sales increased by 2.3% as compared with that of the previous year primarily due to the increase in unit direct manufacturing cost. Hence, the Group's gross margin decreased by approximately 2.6 percentage points to approximately 26.7% for FY2023. In light of the Group's CGU's financial performance in FY2023, the Group adopted a budgeted gross margin at 26% in the 2023 Impairment Assessment, which reflected that actual performance of the Group's CGU in terms of gross profit margin.

REASONS FOR ADOPTION

The Group's impairment assessment policy on non-financial assets was set out in Note 4(p) to the consolidated financial statements for FY2023 in the 2023 Annual Report.

Pursuant to Hong Kong Accounting Standards 36 — "Impairment of Assets", where there are any indication of impairment in value of an asset, the Company should review its carrying amount. Where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to the recoverable amount of the asset or the cash-generating unit ("**CGU**") to which the asset belongs in case the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Recoverable amount is the higher of value-in-use and the fair value less costs of disposal of the individual asset or the CGU. Value-in-use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Accordingly, discounted cash flow method was adopted for the purpose of the 2023 Impairment Assessment in the valuation of the Group's CGU, which is based on a simple reversal calculation to restate all future cash flows in present terms in arriving value-in-use of the Group's CGU. As at the date of this announcement, there are no subsequent changes to the valuation methods as referred to above following their adoption.

In accordance with the aforesaid key assumptions adopted by the Group in the 2023 Impairment Assessment as at 31 December 2023, the recoverable amounts of property, plant and equipment, intangible assets and right-of-use assets are RMB Nil, RMB Nil and RMB Nil, respectively. As the carrying value of the aforesaid assets of approximately RMB8,522,000, RMB696,000 and RMB719,000, respectively, exceeded the respective recoverable amounts, the Impairment Loss was recognised in profit or loss for FY2023.

The above additional information does not affect other information contained in the Announcement or the 2023 Annual Report. Save as disclosed, all other information contained in the Announcement and the 2023 Annual Report remains unchanged.

By order of the Board
Reach New Holdings Limited
Sha Xuanyi
Chairlady and executive Director

Hong Kong, 27 September 2024

As at the date of this announcement, the executive Directors are Ms. Sha Xuanyi (Chairlady), Mr. Lam Kai Yuen, Mr. Lam Kai Cheong and Mr. Li Rongsheng (Chief Executive Officer); and the independent non-executive Directors are Mr. Liu Mingxiao, Mr. Zhu Honghai and Mr. Lin Kin-Chin.

*This announcement, for which the directors of the Company (the "**Directors**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited 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 Stock Exchange's website at www.hkexnews.hk on the "Latest Listed Company Information" page for at least 7 days from the date of its posting and on the website of the Company at www.sthl.com.hk.