InvesTech Holdings Limited
威 訊 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1087)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

References are made to the annual results announcement (the "**2020 Results Announcement**") and the annual report (the "**2020 Annual Report**") of InvesTech Holdings Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**") for the year ended 31 December 2020 (the "**FY2020**"), and the interim report (the "**2020 Interim Report**") of the Company for the six months ended 30 June 2020 (the "**2020 Interim Period**"). Unless otherwise defined herein, terms used in this announcement shall have the same meanings as those defined in the 2020 Annual Report.

In addition to the information provided in the 2020 Results Announcement and 2020 Annual Report, the Company would like to provide the Shareholders and the potential investors of the Company with further information on the impairment of goodwill of approximately RMB57.6 million in relation to the network system integration cash-generating unit (the "**CGU**") for the FY2020, which is set out in the section headed "Management Discussion and Analysis – Financial Review – Impairment losses" of the 2020 Results Announcement and 2020 Annual Report.

IMPAIRMENT LOSSES – IMPAIRMENT OF GOODWILL

Goodwill related to the network system integration CGU arisen from the acquisition of Fortune Grace Management Limited in 2015.

Impairment of goodwill for the 2020 Interim Period

The Group recorded an impairment of goodwill of approximately RMB57.6 million for the 2020 Interim Period in relation to the network system integration CGU, which was mainly attributable to the following factors:

Outbreak of COVID-19 pandemic (the "COVID-19")

The outbreak of COVID-19 had been causing certain level of disruptions to the daily operation of the Group in the 2020 Interim Period. For example, the implementation of pandemic prevention measures increased the difficulties in the Group's daily operations of business activities, such as deferring product delivery and implementation schedule. Similarly, orders were also delayed as a result of the late delivery of goods by the Group's suppliers or lockdown of cities. Despite vaccines for the COVID-19 having recently become available, there has been no clear indication that the pandemic will come to an end soon and the global economy is still recovering from the impact brought about by COVID-19. Therefore, the Group expected that the COVID-19 may continue to affect the financial results of the Group for a certain period of time.

Escalating tension between the US and China

In view of the increasing national security concern in the first half of 2020, products related to network technologies were considered as one of the most sensitive products for export under the trade war between the US and China. As a result of the increasing trade tension between the US and China, the demand of the Group's PRC customers on the products imported from the US's manufacturers reduced due to the risk and uncertainty of import and delivery, such reduction in turn adversely affected the Group's overall revenue for the 2020 Interim Period, especially the majority of the Group's revenue was generated from the PRC by selling products imported from US manufacturers. Furthermore, certain PRC customers of the Group are under the entity list pursuant to some of the sanction programs implemented by the US, and accordingly the sales orders from those customers for US's imported products decreased for the 2020 Interim Period.

Stagnant growth in business development in respect of the agency agreement entered into between the Group and IBO Technology Company Limited (the "IBO")

The Group entered into an agency agreement with IBO for 5G pico base stations series products (the "**5G Products**") exclusively sold and distributed by the Group to telecommunication operators in Sichuan Province of the PRC. In practice, most of purchases of the 5G Products are by large quantity purchase tender. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no such purchase tender was issued up to the date of the 2020 Interim Report. Hence, the expected financial results from selling the 5G Products are insignificant to the value in use calculation of the network system integration CGU, given it is not possible to predict when and how much revenue (if any) can be generated, at this stage.

Taking into consideration the above factors, the Group undertook prudent assessment in preparing the five-year financial budgets of its communication system business for determining the recoverable amount of the network system integration of CGU (the "**Recoverable Amount of CGU**") as at 30 June 2020. To support the Group's management to determine the Recoverable Amount of CGU as at 30 June 2020, the Group engaged an independent professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**JLL**"), to perform a valuation.

The Group's management prepared the five-year period financial budgets of the network system integration business based on key assumptions, in particular, budgeted revenue growth rate and budgeted gross margins, being applied for the calculation of the cash flow projection for the 2020 Interim Period. The budgeted revenue growth rate and budgeted gross margins used for cash flow projections are based on the estimation by the Group's management with reference to the business plans on different sources of revenue including sale of products and rendering of services. The range of budgeted revenue growth rate and budgeted gross margins were varied between the year of 2019 and the 2020 Interim Period as the Group's management would adjust the financial budgets with reference to the past performance of the CGU and the Group's management's expectations for the market development such as the pricing of the Group's products and services, the market outlook, and projected sales based on underlying contracts, etc. The budgeted revenue growth rates applied as at 30 June 2020 ranged from –4.34% to 8.71% per annum (31 December 2019: –1.64% to 23.35% per annum), while the budgeted gross margins applied as at 30 June 2020 ranged from 21.92% to 37.48% (31 December 2019: 22.90% to 39.10%).

Based on the above, the Group had assessed and determined the Recoverable Amount of CGU as at 30 June 2020 and recorded an impairment loss of goodwill of approximately RMB57.6 million for the 2020 Interim Period based on the Recoverable Amount of CGU as at 30 June 2020 of approximately RMB280.9 million whereas the carrying amount of the network system integration CGU was approximately RMB357.7 million (taking into account of holding 75% of equity interest of the network system integration CGU).

Impairment of goodwill for the FY2020

The Group recorded the impairment of goodwill of approximately RMB57.6 million for FY2020, being equal to that recorded for the 2020 Interim Period.

In the second half of the FY2020, the restart of business activities in the PRC and high demand for maintenance services from the Group's customers in order to extend the warranty period of their network products, the Group recorded revenue from rendering of services of approximately RMB173.0 million for the FY2020, representing an increase of approximately 161.7% when compared with the corresponding period of 2019 of approximately RMB66.1 million. Furthermore, the Group had also identified some business opportunities in the second half of 2020 that led to slight increase in demand and awareness of Smart Office Software Solutions collaborated with the internet of things (IoT) technology. Such increase of demand was mainly caused by the closure of office or work-from-home policy implemented by the business sector due to the outbreak of COVID-19.

Notwithstanding the escalating tension between the US and China affected the Group's sales performance throughout the FY2020, especially the change of the demand of the Group's PRC customers leading to the Group's purchases from an US biggest supplier for the orders in the PRC decreased from approximately 35.6% of the Group's total purchases for the year ended December 2019 to approximately 27.5% of that of the FY2020. The Group had continuously identified PRC's local suppliers for the supply of products in order to cope with the changes of customers' need. As a result, the Group's overall sales performance in the second half of FY2020 has been improved.

In view of the slight recovery in sales for the second half of the FY2020, the Group has revised the five-year financial budgets of its communication system business, especially the budgeted revenue growth rates and budgeted gross margins to reflect the changes of the historical financial performance and market expectations. The five-year financial budgets with budgeted revenue growth rate applied as at 31 December 2020 ranged from 4.36% to 17.69% per annum (2020 Interim Period: –4.34% to 8.71% per annum), while the budgeted gross margins applied in the cash flow projections ranged from 24.15% to 33.28% (2020 Interim Period: 21.92% to 37.48%). Based on above changes, the Recoverable Amount of CGU as at 31 December 2020 was approximately RMB302.2 million, which was higher than that of approximately RMB280.9 million as at 30 June 2020. Such Recoverable Amount of CGU was agreed by the Directors and JLL. According to International Accounting Standard 36 *Impairment of Assets* issued by the International Accounting Standards Board (the "**IAS 36**") and the International Financial Reporting Interpretations Committee Interpretation 10 *Interim Financial Reporting and Impairment*, an impairment loss recognised for goodwill is not reversed in a subsequent period. Therefore, the impairment loss of goodwill in relation to the network system integration CGU for the FY2020 was equal to that being recorded for the 2020 Interim Period.

Valuations for impairment on goodwill

To support the Group's management to determine the Recoverable Amount of CGU as at 30 June 2020 and 31 December 2020, the Group engaged JLL to perform valuations.

The Recoverable Amount of CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Group's management covering a five-year period with budgeted revenue growth rate, the budgeted gross margins, the discount rate and the long term growth rate applied in the cash flow projections. The details of the valuation conducted are set out below:

(a) Valuation approach

According to the IAS 36, an asset is impaired when its carrying amount exceeds its recoverable amount. Recoverable amount of an asset or the CGU is defined as the higher of its value in use (the "**VIU**") and its fair value less cost of disposal. VIU is the present value of the future cash flows expected to be derived from an asset or the CGU. Discounted cash flow method is an appropriate method that can reflect the value of cash flow generated by continuous operation of the assets. In particular, JLL applied the discounted cash flow method in conducting the valuation for the impairment testing of goodwill in relation to the network system integration CGU.

There are no subsequent changes in the valuation method used by the Company.

(b) Key assumptions on the valuations

(i) Budgeted revenue growth rates and budgeted gross margin

The budgeted revenue growth rates are based on the historical revenue growth data and market outlook perceived by the Group's management. The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected market development. For details of the budgeted revenue growth rates and budgeted gross margins being applied in the five-year financial budgets of the Group for the 2020 Interim Period and FY2020, please refer to the section headed "IMPAIRMENT LOSSES – IMPAIRMENT OF GOODWILL" to this announcement.

The Group consistently considered the factors including the historical growth rate and gross margins in different kind of products or services, the market expectation and the change of technology in the assessment of budgeted revenue growth rates and budgeted gross margins. As such, the calculations for VIU in respect of the 2020 Interim Period and of the FY2020 have already addressed the financial impact on budgeted revenue and budgeted gross margins due to the outbreak and escalation of the COVID-19 and the tension between the US and China as a result of the trade war from time to time.

(ii) Discount rate

The discount rates used are before tax and reflect specific risks relating to the relevant unit. The methodology in constructing the discount rate is the same for the year of 2019 and 2020. The discount rate applied as at 31 December 2019, 30 June 2020 and 31 December 2020 are 27.00%, 26.01% and 26.07% respectively. The discount rate is slightly decreased from 27.00% in 2019 to 26.01% in 2020 Interim Period and to 26.07% in FY2020 mainly due to (i) the decrease in the equity market return; and (ii) the decrease in industry risk premium.

(iii) Long term growth rate

There is no change in the long term growth rate, and the rate applied as at 31 December 2019, 30 June 2020 and 31 December 2020 are 3%. The long term growth rate is based on market data and the Group's management's expectation on the future development of the technology industry.

The values assigned to the above key assumptions on market development and discount rate are consistent with external information sources.

The above additional information does not affect other information contained in the 2020 Annual Report. Save as disclosed in this announcement, all other information contained in the 2020 Annual Report remained unchanged.

By Order of the Board
InvesTech Holdings Limited
Chan Sek Keung, Ringo
Chairman and Chief Executive Officer

Hong Kong, 17 June 2021

As at the date of this announcement, the executive Directors are Mr. Chan Sek Keung, Ringo (Chairman and Chief Executive Officer), Ms. Wang Fang, Mr. Lu Chengye and Mr. Liu Chun Fai, the non-executive Director is Mr. Wong Tsu Wai, Derek, and the independent non-executive Directors are Mr. David Tsoi, Mr. Lu, Brian Yong Chen and Mr. Yuen Shiu Wai.