大唐西市
DA TANG XI SHI

DTXS Silk Road Investment Holdings Company Limited
大唐西市絲路投資控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 620)

SUPPLEMENTAL ANNOUNCEMENT
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report of DTXS Silk Road Investment Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2023 published on 24 May 2024 (the "**Annual Report**"). Capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report, unless the context requires otherwise.

In addition to the information contained in the Annual Report, the board (the "**Board**") of directors of the Company would like to provide the following supplementary information to the shareholders and potential investors of the Company.

WRITE DOWN OF PROPERTIES UNDER DEVELOPMENT AND PROPERTIES HELD FOR SALE

As stated in the Annual Report, the Company recognised other losses in the total amount of HK$186,638,000 for the year ended 31 December 2023, comprising, amongst others, write down of properties under development and completed properties held for sale in the amount of HK$178,564,000.

Reasons for and circumstances leading to the material write down

The write down of properties under development and the completed properties held for sales during the year ended 31 December 2023 was mainly attributable to the difference between the assessment of the management of the Company (the "**Management**") of the value of the properties located at No.1 Tao Yuan South Road, Lianhu District, Xi'an City, Shaanxi Province, the PRC (the "**Properties**") and the appraised value of the same based on a valuation conducted by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), an independent professional valuer engaged by the Company.

The Group has successfully sold part of the Properties, being certain retail units, during the year ended 31 December 2022 (the "**2022 Properties Sales**"). During the year ended 31 December 2023, with a view to further enhancing the value of the Properties as a whole, the Management decided to conduct further refurbishment, renovation and improvement works (the "**2023 Improvement Works**"), to make it a first class glamourous and luxury commercial and office building located at the heart of Xi'an City, one of the most vibrant and rapidly developing cities in Mainland China. With the track record of the 2022 Properties Sales and taking into account the value added after completion of the 2023 Improvement Works, the Management considered that the commercial value of the Properties as at 31 December 2023 should be no less than an aggregate price reflecting the historical prices in the 2022 Properties Sales plus increment brought by the 2023 Improvement Works.

In accordance with relevant accounting principles, the Company had engaged JLL to issue a valuation report on the fair value of the Properties. It was the professional judgment of JLL, after making reference to comparable sales transactions as available in the market, that the value of the Properties shall be RMB744,789,000 as at 31 December 2023.

The Management noted that the appraised value of the Properties based on the valuation report issued by JLL was lower than the Management's internally assessed commercial value of the Properties. Having adopted the comparison approach, the Management's internally assessed commercial value of the Properties was arrived at with reference to the historical transaction records of the 2022 Properties Sales, while JLL's valuation was arrived at with reference to comparable sales transactions in the market. Having considered the professional advice of JLL and the requirements in relevant account standards such as HKFRS 13 – Fair Value Measurement in consultation with the auditors, the Company accepted that JLL's valuation of the Properties was adequate for the purpose of financial reporting and presentation and hence adopted such appraised value of the Properties.

As there was a difference between the Management's commercial valuation of the Properties and JLL's professional valuation of the Properties, there was a write down of properties under development and completed properties held for sales in the amount of HK$149,667,000 (RMB135,261,000) recorded for the year ended 31 December 2023.

Valuation method and key value of inputs

Based on the valuation report issued by JLL, it has valued the property interests of the Properties which are held for sale by the comparison approach assuming sale of the property interests in their existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. It was represented that such approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. For the part of the Properties which has been rented to a tenant as at the valuation date, JLL has valued such portion of Properties by income approach by taking into account the net rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases.

The Company was not aware of any material changes in the valuation method used or the inputs stated in the valuation report issued by JLL as compared to those previously adopted for the year ended 31 December 2022.

Based on the valuation report issued by JLL, it has identified and analysed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable ranges from RMB28,000 to RMB30,500 per square metre. for retail units on the ground floor. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable and the property to arrive at the assumed unit rate for the Properties.

Basis and assumptions of the valuation

JLL has identified and analysed various relevant sales evidences in the locality which have similar characteristics as the Properties. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable and the Properties to arrive at the assumed unit rate for the Properties.

JLL has made the following key assumptions in the course of its valuation of the Properties:

General assumptions

- JLL's valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests

- No allowance has been made in JLL's valuation report for any charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values

Specific assumptions

- JLL has been supplied with basic information likely to have an effect on the values of the properties, and the information supplied to JLL and summarized in the valuation report is both complete and correct

- Xi’an Da Tang Xi Shi Enterprise Limited (西安大唐西市實業有限公司, “**DTXS Enterprise**”) legally holds the ownership rights of the property

- DTXS Enterprise has the rights to use the apportioned land use rights of the flat car parking spaces and mechanical car parking spaces of the properties, and has the rights to use and transfer the rights of flat car parking spaces and mechanical car parking spaces

- The existing tenancy agreements and the joint operation agreements relating to Properties are legally binding, valid and enforceable

- The Properties will be maintained and managed appropriately in their residual term of use

- The existing tenancy agreements of the Properties are legally binding, valid and enforceable

- The Properties can be freely transferred, leased, mortgaged or otherwise disposed of by DTXS Enterprise with no outstanding payable fees or monies

The Company was not aware of any material changes in the assumptions stated in the valuation report issued by JLL as compared to those previously adopted for the year ended 31 December 2022.

IMPAIRMENT LOSSES ON GOODWILL AND INTANGIBLE ASSETS ASSOCIATED WITH THE AUCTION BUSINESS

As stated in the Annual Report, the Company recognised impairment loss on goodwill of approximately HK$102.6 million and impairment loss on intangible assets of approximately HK$56.8 million.

Basis of impairment assessment

Impairment of goodwill

The Group performs its annual impairment test of goodwill at 31 December. Impairment is determined by assessing the recoverable amount of the Group’s cash generating units (“**CGUs**”) (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised.

Impairment of intangible assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or CGU's value in use and its fair value less costs of disposal. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reasons for and circumstances leading to the material impairment

In the first quarter of 2023, the Company prepared cash flow projections in respect of the auction business based on financial budgets covering a five-year period for 2023 to 2027 with the assistance of JLL, an independent professional valuer. At that point of time, the Company was optimistic about the outlook of the art market due to the reopening of the PRC-Hong Kong border in early 2023 as the business performance was expected to be largely improved if the COVID related quarantine restriction were lifted. The management has therefore based its cash flow projections to undertake impairment testing of goodwill on such assumptions.

Subsequently in around September 2023, the Company was preparing for its integrated large scale autumn auction in December 2023 and had conducted preliminary market enquiry and testing with certain collectors. The responses were not as positive as expected due to the uncertainties associated with the PRC economy. After due and thoughtful assessment, the Company decided not to host the autumn auction in 2023. As the long-expected art market rebound was slower than expected, the financial performance of the auction business remained weak throughout 2023 whereby no profit was generated. While there is no currently perceived basis to support the continuous profitability of the auction business (based on the cash flow projections conducted by the Group), the Company took a conservative approach and recognized full impairment losses on the goodwill and intangible assets.

Details of the impairment assessment of the auction business

The recoverable amount of the auction business CGU at 31 December 2022 has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by management.

The following describe each key assumption used in the value-in-use calculation of the auction business CGU on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Forecasted growth rates – The forecasted growth rates are based on the historical operating results, expected market development as well as industry forecasts.

- Forecasted interest income from the consignors – The forecasted interest income from the consignors is based on the balances of the advances to consignors at the end of the reporting period and expectation of future changes of working capital that are available for advances to consignors.

- Discount rate – the discount rate is based on the estimation of the required rate of returns that reflects the current market assessment of the time value of money, general market risk and specific risks relating to the auction business.

As disclosed in Annual Report, the long-expected art market rebound did not accompany the re-opening of the PRC-Hong Kong border in early 2023 and the actual financial performance of the auction business for the year ended 31 December 2023 fell short of the Group's cash flow projections made in early 2023 by distance. It was the Company's projections based on financial budgets that it is unlikely for the financial performance of the auction business, in particular, the estimated future cash flows, to see any substantial improvement for the year ending 31 December 2024. As at 31 December 2023, there were 22 consignors in the Group's art financing business to which the Group has made advances secured by the art works held by the Group as collateral.

Taking into account the negativity associated with the forecasted revenue and growth rate of the auction business CGU, in accordance with the principle of prudence, the Management considered that it was appropriate to treat the recoverable amount of the auction business CGU as nil. In view that the carrying amount of the goodwill and intangible assets (i.e. brand) of auction business CGU was higher than the recoverable amount, goodwill and intangible assets in respect of the auction business CGU were fully impaired for the year ended 31 December 2023.

FINANCIAL REPORTING AND RELATED CONTROLS

Pursuant to Rule 13.49 of the Listing Rules, the Company is required to publish an announcement for the annual reports of the Group for the year ended 31 December 2023 (the "**2023 Annual Results**") on a date not later than three months after the financial year, namely, on or before 31 March 2024. There was a delay in the publication of the 2023 Annual Results as additional time was needed to address requests from the auditors of the Company and conduct relevant audit procedures in relation to, amongst others, expected credit loss assessment and estimation for certain trade and other receivables and impairment testing for intangible assets and goodwill of the Group.

Review and details of area of concern identified

The Company has conducted a review on the audit planning procedure for the preparation of financial statements.

In January 2024, the Company was notified by the auditors that valuation reports and impairment assessments would be required to satisfy the relevant audit procedures. The Company had initiated the process of valuation so as to obtain the information requested by the auditors. It transpired that, amongst others, two key audit issues were ECL assessment for trade and other receivables and impairment testing for intangible assets and goodwill of the Group (the "**Outstanding Matters**"). The Outstanding Matters involved additional valuation and appraisal procedures as well as significant judgements and estimations of the Management, such as the recoverable amount of the auction business CGU, the discrepancy in the Management's commercial valuation and JLL's appraised value of the Properties. Due to the complexity of the processes involved, the prolonged work schedule for the estimation and valuation (involving interactions between the Company, the auditors and the valuer) led to a delay in the overall audit timetable.

Remedial measures

The Company has updated its audit planning procedure to ensure that effective audit procedures are in place for efficient and timely completion of future audit procedures.

The Company has agreed with its auditors that the audit work for the financial year ending 31 December 2024 will commence at an early stage in December 2024. The early audit planning will cover, amongst others, profit and loss items up to September 2024 and updates on key audit issues identified for the year ended 31 December 2023.

At the planning stage, the Company will provide material change in the Group's risk environments or operating scale during the year (if any). The Company and its auditors will together discuss and identify material audit issues and agree on the audit approach, supporting documents required and the audit timetable. If there is any expected audit issue, the Company will engage professions, including but not limited to the professional valuers, legal counsel, for early assistance to the Company in line with the audit plan.

The Management responsible for financial management of the Group will be in charge of all financial and accounting affairs of the Group. He/she will also supervise the implementation of the financial reporting procedures and policies of the Group. The Management will proactively and diligently monitor the audit progress and seek help from the audit committee of the Company when necessary.

The audit committee of the Company will meet regularly for the review and assessment of the Company's audit planning process, financial reporting system and risk management internal control systems on at least an annual basis.

The Company will also provide or procure on-going training for financial personnel so as to ensure that they possess requisite skills and competence to carry out relevant audit procedures.

The Company considers that the delay in publication of 2023 Annual Results was a one-off incident. It has implemented various measures to its internal processes and systems to ensure that there will be an effective audit planning at an early stage and sufficient monitoring and supervision of the financial reporting system. The Company considers that these measures are effective and adequate in the avoidance of similar incidents in the future.

The supplementary information provided in this announcement does not affect any other information contained in the Annual Report. Save as disclosed above, the contents of the Annual Report remain unchanged.

By order of the Board
DTXS Silk Road Investment Holdings Company Limited
Lu Jianzhong
Executive Director and Chairman

Hong Kong, 26 June 2024

As at the date of this announcement, the board of Directors of the Company comprises four Executive Directors, namely Mr. Lu Jianzhong (Chairman), Mr. Yang Xingwen, Mr. Huang Dahai and Mr. Wong Kwok Tung Gordon Allan (Co-Chief Executive Officer); and three Independent Non-executive Directors, namely Mr. Kwok Chi Shing, Prof. Wang Guiguo and Ms. Hau Amy Wing Gee.

* *For identification purpose only*