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**South Shore Holdings Limited**
**南岸集團有限公司**
*(Incorporated in Bermuda with limited liability)*
(Stock code: 577)

# ADDITIONAL INFORMATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020

Reference is made to the annual report (the "**Annual Report**") of South Shore Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 March 2020 published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 17 September 2020.

In addition to the information as disclosed in the section headed "Further Information in respect of Auditor's Disclaimer of Opinion" in the Management Discussion and Analysis on pages 12 to 16 of the Annual Report, the Company wishes to provide the shareholders of the Company and the public with the following additional information.

As disclosed in the Independent Auditor's Report on pages 85 to 88 of the Annual Report, the auditor of the Company (the "**Auditor**") issued a disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 March 2020. The matters giving rise to such disclaimer of opinion (the "**Audit Modifications**") related to (a) the impairment assessment of the cash generating unit of the hotel operation; and (b) material uncertainty related to going concern.

Further information in respect of the Audit Modifications are set out below:

## (A) IMPAIRMENT ASSESSMENT OF THE CASH GENERATING UNIT ("CGU") OF THE HOTEL OPERATION

### Details of the Audit Modification

As part of the audit process, the Group conducted an impairment test of the assets of hotel business according to the accounting standards and engaged an independent valuer to assess the value of the Company's hotel (the "**Hotel**") in Macau.

During the audit, the Company has given to the Auditor the valuation prepared by the independent valuer, provided the Auditor with all relevant supporting documents (including but not limited to forecast, valuation working, assumptions and supporting documents on assumptions) at its request and arranged communications between the valuer and the Auditor on the assumptions and bases of the valuation.

However, the Auditor is of the view that the potential impact from certain uncertainties (including but not limited to uncertainties on hotel industry in Macau and the Hotel from outbreak of the COVID-19 pandemic, lack of historical performance of the Hotel and material uncertainty on going concern of the Company) are difficult to quantify and properly reflect in the valuation. Also, the Auditor has made specific comment on the difficulty in finding comparable hotel operations which might support the assumptions in the valuation. Thus, the Auditor considered that it is unable to obtain sufficient appropriate audit evidence in respect of the assumption adopted into the anticipated cash flow on the impairment assessment of the CGU of the hotel operation, and has issued a qualified opinion on the impairment assessment of the CGU of the hotel operation.

**Management's position and basis on major judgmental areas**

Same as the previous year, the Group estimated the recoverable amount of the hotel business (the cash-generating unit to which the asset belongs) according to the valuation performed by the independent valuer under the "Hong Kong Accounting Standard 36 – Impairment of Assets". The assets of the Hotel (or hotel business), which include in the cash-generating unit of hotel business, represent hotel property, right-of-use assets, property, plant and equipment and other assets.

According to the valuation report (the "**Valuation Report**") dated 11 September 2020, the value of the Hotel is HK$4,100 million as at 31 March 2020.

The valuation methodology, value of inputs in the current and previous years used in the valuations together with the bases and assumptions are as follows:

| | **Current Year Valuation Report** | **Previous Year Valuation Report** |
|---|---|---|
| Valuation methodology | Income Approach | Income Approach |
| Discount rate | 9.0% | 10.5% |
| Average daily room rate in year 1 | HK$2,800-HK$15,680 | HK$6,050-HK$35,000 |
| Occupancy rate in year 1 | 2.5%-10% | 12%-46% |
| Sales revenue in year 1 | HK$39.6 million | HK$274.1 million |
| Growth rate in sales revenue | Year 2: 728%<br>Year 3: 45%<br>Year 4: 36%<br>Year 5: 12% | Year 2: 47%<br>Year 3: 42%<br>Year 4: 29%<br>Year 5: 19% |
| Growth rate in average daily room rate | Year 2: 100%<br>(vs 2nd half of year 1)<br>Year 3: 3% - 20%<br>Year 4: 3% - 15%<br>Year 5: 3% - 12.5% | Year 2: 3% - 22%<br>Year 3: 3% - 19%<br>Year 4: 3% - 17%<br>Year 5: 3% - 15% |

| | | |
|---|---|---|
| Growth rate in occupancy rate | Year 2: 100%<br>(vs 2nd half of year 1)<br>Year 3: 0% - 30%<br>Year 4: 3% - 23%<br>Year 5: 0% - 25% | Year 2: 8% - 21%<br>Year 3: 8% - 18%<br>Year 4: 7% - 12%<br>Year 5: 4% - 7% |
| Long term growth rate | 3% | 3% |

In the course of preparing the valuation of the hotel business, it was assumed that the Hotel would suspend its operations over the 1st half of Year 1 (i.e. to 30 September 2020) and would resume its operations in the 2nd half of Year 1.

The Company allowed a 50% discount on the occupancy rate and average daily room rate (the "**ADR**") in the 2nd half of Year 1 based on certain tourism industry data of the Macau Government Tourism Office, namely, the occupancy rate of hotels in Macau, the average room rate of hotels in Macau and the visitors to Macau, which fell approximately 50.5%, 11.5% and 68.9%, respectively, in the first quarter of 2020.

The Company assumed that the occupancy rate and ADR of the Hotel would gradually pick up to pre-COVID-19 levels in Year 2 (i.e. 2021/22) in expectation of the Mainland China government resuming the issue of visas to Macau for residents of Mainland China, to boost the tourism and hospitality industry in Macau after the COVID-19 pandemic.

As a result, this models the substantial year on year growth in sales revenue when comparing Year 1 to Year 2.

The reason for the significant difference of the growth rate (the "**Growth Rate**") with the valuation report for the previous year is as follows:

- For the current year valuation, the anticipated sale revenue, occupancy rate and room rate were significantly reduced in Year 1 due to the impact of the COVID-19 pandemic. As noted above, it is assumed that the situation will normalise in the Year 2; and

- For the previous year's valuation, no crisis was assumed. Thus, that showed a steady growth rate.

Due to the COVID-19 pandemic and the challenging economic conditions, the Company decided to suspend operations at the Hotel in early 2020.

For the 2nd half of Year 1, the Group has modelled reopening but allowed for 50% discount on the occupancy rate and ADR by reference to the tourism industry data of Macau for the first quarter of 2020. Due to the uncertainties caused by the COVID-19 pandemic, this information was the only reference that was regarded by Management as concrete, reliable and appropriate at the time of preparing the valuation to apply as a starting point in the Company's case, given that the 2020 quarter 1 information already factors in the material impact of COVID-19 on Macau, with visitor numbers from China falling dramatically from the outset of 2020. Thus, the tourism industry data of Macau for the first quarter of 2020 was used as the bases for determining the occupancy rate and ADR for the 2nd half of Year 1.

For Year 2, Management chose to draw parallels to the change in occupancy rate and ADR of hotels in Hong Kong following the SARS outbreak. Despite the severe disruption to the hospitality market in Hong Kong caused by the SARS outbreak in March 2003, the occupancy rate and ADR of High Tariff hotels recovered to pre-SARS levels in a 3-month period and a 6-month period, respectively. The recovery was bolstered by the Individual Visit Scheme (IVS) for Hong Kong. In mid-August 2020, the Mainland China government resumed issuing visas to Macau for Zhuhai residents. In September 2020, the Mainland China government resumed issuing visas to Macau for residents of Mainland China. This was in line with the Management's assumption that the 2nd half of Year 1 would show an improvement in the Hotel's performance; and Management does not see it as unreasonable to assume a Year 2 pick up to pre-COVID-19 levels, with both the Mainland government and the Macau authorities looking to boost tourism and the hospitality industry in Macau, much in the same way as Hong Kong's hotels were aided after the SARS outbreak.

Management has modelled reopening of the Hotel in the 2nd half of Year 1 by reference to the effectiveness of COVID-19 preventive measures imposed by the Macau government and the low confirmed COVID-19 cases in Macau. Accordingly, Management considered it reasonable to model for the ability to reopen the Hotel after some 6 to 9 months. The Company has been monitoring the Group's exposure to the risks and uncertainties in connection with the COVID-19 pandemic and making every effort to prepare for the reopening, subject to actual market conditions and financial impact on the Group.

Accordingly, Management considered that the Growth Rate is fairly and reasonably determined.

Given the COVID-19 pandemic and quarantine measures in Macau, the Group revised the operating forecast of the hotel business, in certain respects including but not limited to: (a) a reduction of anticipated occupancy and room rates in the first year (ie the first year used for valuation purpose) as well as forecasted revenue in the first year; and (b) a rebound in anticipated occupancy and room rates as well as forecasted revenue in subsequent years, in expectation of the Mainland China government's resumption of issuing visas to Macau for residents of Mainland China, to boost the tourism and hospitality industry in Macau.

It is explained above as to why Management believed that Macau will be able to show a resilient and strong rebound to the challenges presented by the COVID-19 pandemic, and in particular it is presented above, as a parallel, the recovery of the Hong Kong tourism and hotel industry after SARS. Management expects Macau's recovery to be even more acutely boosted by the continuing improvement of circumstances in China and its own encouragement of tourism. Macau, as a tourism-oriented city, relies heavily on the revenue generated by the gaming and tourist sectors. Most of its tourists come from Mainland China. During 2019, Macau receives approximately 39.4 million visitors with approximately 27.9 million from Mainland China (which represents approximately 70.9% of the total visitors to Macau). Accordingly, Management sees it as entirely justified to conclude that the Mainland government's resumption of issuing visas to Macau for residents of Mainland China will fuel recovery of the tourism and hospitality industry in Macau.

It is normal for a start-up hotel operation to have low occupancy and room rates. This situation has been compounded by the pandemic. However, as the Hotel represents an ultra-luxury 'one of a kind' experience (not being part of any chain of hotels or commoditized brand), Management considers it holds a superior and unique position in the market. When comparing the Hotel with other hotels in Macau of a similar quality and specification, Management sees, in the Hotel's case, considerable potential for marked improvements in the occupancy rate and the room rate. Accordingly, Management believes that there is strong potential for growth, in line with a recovery and boost to the tourism and hospitality industry in Macau after the COVID-19 pandemic.

As the Hotel is unique ultra-luxury, it might be difficult to find comparable. Nevertheless, the independent valuer has identified relevant comparable to justify the assumptions.

There is no change in the valuation method used by the valuer for current year and previous year. Income approach and use of discounted cash flow method ("**DCF**") is applied for the valuation. The reason for using this method is as follow:

- Under the "Hong Kong Accounting Standard 36", the recoverable amount of an asset or a cash-generating unit can only be assessed based on its fair value less costs of disposal and value in use (i.e. DCF);

- The value of the hotel business is determined by its potential ability to generate a stream of benefits in the future;

- The future cash flow of the hotel business can be identified based on the hotel performance record and forecast prepared by management of the Company; and

- Market approach (i.e. fair value less costs of disposal) is not applicable due to infrequent sales of hotels on an open market basis in the locality of the hotel business, i.e. Macau.

Accordingly, Management considers that the valuation is fair and reasonable.

**Audit Committee's view**

The audit committee of the Company (the "**Audit Committee**") reviewed the Audit Modification in respect of impairment assessment of CGU of the hotel operation and the Valuation Report, and discussed with Management and the Auditor. The Audit Committee concurs with Management's view.

**Action Plan**

Given that the Company intends to continue with its endeavours to seek prospective buyers for the Hotel, and execute a sale of the Hotel as soon as possible within this financial year, it is expected that:

(a) modified opinion would be issued on (i) the opening balance of the CGU of the hotel operation as at 1 April 2020; and (ii) the comparative figures for the year ended 31 March 2020, for the annual audit of the consolidated financial statements of the Group for the year ending 31 March 2021 because the disposal consideration may not be applicable for justifying the fair value of the opening balance of the CGU as at 1 April 2020;

(b) modified opinion would be issued on the profit or loss effects, namely depreciation on the CGU, for the annual audit of the consolidated financial statements of the Group for the year ending 31 March 2021 because the Auditor may not be able to obtain sufficient audit evidence on the profit or loss effects, based on the aforesaid opening balance of the CGU (with modified opinion);

(c) modified opinion would be issued on the gain/loss on disposal of the CGU, for the annual audit of the consolidated financial statements of the Group for the year ending 31 March 2021 because the Auditor may not be able to obtain sufficient audit evidence on the net carrying amount of the CGU as at the disposal date, based on the aforesaid opening balance of the CGU (with modified opinion) and the aforesaid profit or loss effects (with modified opinion); and

(d) modified opinion would be issued on the aforesaid profit or loss effects and the aforesaid gain/loss on disposal of the CGU, being the comparative figures for the year ending 31 March 2021, for the annual audit of the consolidated financial statements of the Group for the year ending 31 March 2022.

As the Company intends to continue with its endeavours to seek prospective buyers for the Hotel, and execute a sale of the Hotel as soon as possible within this financial year, it is expected that there would be no audit modification on the closing balance of the CGU of the hotel operation as at 31 March 2021, provided that the sale is completed during the year ending 31 March 2021.

## (B) GOING CONCERN

### Details of the Audit Modification

The Group incurred a net loss of approximately HK$1,019 million during the year ended 31 March 2020 and had net current liabilities and net liabilities of approximately HK$4,401 million and HK$1,596 million respectively as at 31 March 2020. These figures indicate that a material uncertainty exists as to the Group's ability to continue as a going concern.

During the audit, the Company explained to the Auditor that it has taken or will continue to implement the financing plans and measures as detailed in note 1 of the consolidated financial statements of the Group for the year ended 31 March 2020 (including but not limited to: (a) executing a sale of the Hotel; (b) seeking a "standstill" from the bank; (c) working with the bank on any remedial measures; and (d) seeking new sources of funding in the form of debt and, or equity).

However, in view of the extent of the uncertainty relating to the successful outcome that certain financing plans and measures (as detailed in note 1 of the consolidated financial statements of the Group) to improve its consolidated financial position, the Auditor disclaimed its opinion in light of the material uncertainty relating to the going concern basis.

### Management's position and basis on major judgmental areas

Management has assessed the Group's current liquidity, performance and available sources of financing in considering the Group's ability to continue as a going concern. Based on the assessment, Management considers that, taking into account the financing plans and measures as detailed in note 1 of the consolidated financial statements of the Group, the Group will have sufficient working capital to finance its operations and to meet its financial obligations for at least the next twelve months from the date of the consolidated financial statements of the Group.

### Audit Committee's view

The Audit Committee reviewed the Audit Modification in respect of going concern and the financing plans and measures, and discussed them with Management and the Auditor. The Audit Committee concurs with Management's view. The Audit Committee is of the view that Management should continue its efforts in implementing the actions and measures with the intention of improving the net current liabilities and net liabilities position of the Group.

**Action Plan**

The Company has taken and will take the following measures to improve its liquidity and financial position, and to remediate its net current liabilities and net liabilities position:

(a) Notwithstanding the lapse of the Hotel Disposal (as announced by the Company on 1 September 2020), the Company will continue with its endeavours to seek prospective buyers for the Hotel and execute a sale as soon as possible;

(b) The Company will continue with its frequent communications with the bank and work with the bank on appropriate remedial measures; and

(c) The Group will continue to seek new sources of funding in the form of debt and, or equity.

The directors of the Company, including the Audit Committee, believe that the above financing plans and measures, if materialized, will not only bring to the Group an improvement on the financial performance but also address and remove the Audit Modification in respect of going concern in the next financial year ending 31 March 2021, given there is no adverse change to the financial position, operations and investments of the Group.

By Order of the Board of
**South Shore Holdings Limited**
**Mui Ching Hung, Joanna**
*Company Secretary*

Hong Kong, 28 October 2020

As at the date of this announcement, the directors of the Company are:

| | | |
|---|---|---|
| Mr Peter Lee Coker Jr. | : | Chairman (Executive Director) |
| Ir James Chiu, *OBE*, *JP* | : | Independent Non-Executive Director |
| Professor Lee Chack Fan, *GBS, SBS*, *JP* | : | Independent Non-Executive Director |
| Mr Iain Ferguson Bruce | : | Independent Non-Executive Director |
| Dr Lo Wing Yan, William, *JP* | : | Independent Non-Executive Director |