WLS Holdings Limited
滙隆控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8021)

SUPPLEMENTAL ANNOUNCEMENT – ANNUAL RESULTS FOR THE YEAR ENDED 30 APRIL 2020

Reference is made to the annual report ("**Annual Report**") of the Company published on 30 July 2020 in relation to the audited consolidated results of the Company and its subsidiaries for the year ended 30 April 2020 ("**FY2020**"). Capitalised terms used herein shall have the same meanings as those defined in the Annual Report unless the context requires otherwise.

The Company would like to supplement the Annual Report with the following information on the impairment of intangible assets of the Group for FY2020.

FACTORS, EVENTS AND CIRCUMSTANCES LEADING TO IMPAIRMENT OF INTANGIBLE ASSETS FOR FY2020

In July 2018, Mass Fidelity entered into a memorandum of understanding ("**MOU**") with a financial advisory company ("**Financial Advisory Company**") for the business cooperation in providing investment advisory service. The MOU was effective for one year from the date of the MOU. However, as the overall financial market was getting worse due to the trade war between China and the United States, and the business expansion to provide investment advisory service of Mass Fidelity was not carried out as planned, the MOU expired in July 2019 without further business cooperation between Mass Fidelity and the Financial Advisory Company. In preparing the 2019 Cash Flow Forecast, the Directors anticipated the expiry of the MOU, because during the year 2019, the Financial Advisory Company which focused on customers from China, suffered decline in business opportunity in the first half of 2019, due to the launch and implementation of Common Reporting System in the first half of 2019, the trade war between China and the United States, and the tightening control of fund transfer from China to Hong Kong. The number of customers referred to Mass Fidelity by the Financial Advisory Company was less than expected by the Directors. In addition, with the down-scale of the operation of the Financial Advisory Company and foreseeable difficulty in execution, the Financial Advisory Company turned down the offer of the administration and advisory services to be provided by Mass Fidelity, which would enable Mass Fidelity to receive a service fee. In view of that, the management of the Company ("**Management**") had not taken into account the expected revenue from the Financial Advisory Company when preparing the 2019 Cash Flow Forecast.

The Blue Pool Group provides insurance brokerage services, which involves introducing, advising and arranging various types of contracts of insurance provided by global insurance providers for customers. These insurance contracts are mainly related to insurance products with investment elements. As the Blue Pool Group mainly targets customers from China, due to the implementations of cross-border travel restrictions to prevent the spread of coronavirus disease 2019 ("**COVID-19**"), significantly less targeted customers of the Blue Pool Group have been able to travel to Hong Kong. In the first quarter of 2020, the COVID-19 pandemic has adversely affected the local and global economy, and has brought uncertainties to the global and local business environment. Insurance products with investment elements are less attractive to the Blue Pool Group's potential customers in times of possible fluctuations in the global financial market, and the Group is more cautious in formulating its business strategy of the Blue Pool Group. These may adversely affect the revenue of Blue Pool Group in the near future and possibly the coming year.

IMPAIRMENT ASSESSMENT OF INTANGIBLE ASSETS AS AT 30 APRIL 2020

The Management performed impairment assessment of the carrying amounts of the cash generating unit ("**CGU**") of the Blue Pool Group as at 30 April 2020 according to Hong Kong Accounting Standard 36 "Impairment of Assets" ("**HKAS 36**") by using the value in use method. Since there are insufficient comparable transactions in the market as at the year-end date, the Management measured the recoverable amount of the CGU of the Blue Pool Group ("**Blue Pool Group CGU**") to which the intangible asset had been allocated to by estimating its fair value less costs of disposal. The Management considered that the intangible asset is the CGU (i.e. Blue Pool Group CGU).

As estimating the fair value less costs of disposal of a CGU or a group of CGUs involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal, and applying the appropriate discount rate to those future cash flows. Accordingly, in determining the respective recoverable amount of the Blue Pool Group CGU, the Management prepared and estimated the future cash flows expected to arise from Blue Pool Group based on financial budgets covering a 5-year projection period.

As stated in paragraph 19 of HKAS 36, "*it is not always necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount*". Since the recoverable amount of the Blue Pool Group CGU determined from both the fair value less costs of disposal and the value in use as determined by the Management is the same, the Management concluded both the recoverable amounts as derived from fair value less costs of disposal and the value in use would produce the same outcome for the purpose of impairment assessment.

Based on the 2020 Cash Flow Forecast, the recoverable amount of Blue Pool Group was negative as at 30 April 2020. Accordingly, the Management have determined impairment of intangible asset directly related to Blue Pool Group CGU amounting to HK$34,600,000. No other write-down of the assets of assets management business was considered necessary. Subsequent to the impairment, both of the carrying amount of the goodwill and intangible asset related to Blue Pool Group is zero.

CASH FLOW FORECAST AS AT 30 APRIL 2020

When preparing the 2020 Cash Flow Forecast, the Management considered that the budgeted revenue was the most significant estimate which was estimated based on the Blue Pool Group's past performance and Management's expectation of Blue Pool's market development. Details of the key inputs based on which the Management estimated the future cash flows included in the 2020 Cash Flow Forecast are explained below.

Revenue

Based on the Management's estimation, the revenue of Blue Pool Group would be solely contributed by Mass Fidelity's commission income from insurance brokerage services ("**Insurance Brokerage Fee**") and advisory income from Mass Fidelity's provision of advisory service on insurance products ("**Advisory Income**"). Further to the termination of the MOU on July 2019, the Management no longer included in the 2020 Cash Flow Forecast revenue from provision of administration and advisory services to the Financial Advisory Company.

Based on the management account for FY2020, the revenue arising from Insurance Brokerage Fee and Advisory Income were approximately HK$1.8 million and HK$0.2 million respectively, and for the year ended 30 April 2019 ("**FY2019**"), approximately HK$4.8 million and HK$0.1 million respectively, representing a significant decrease of approximately 59% on an aggregate basis. The Management considered that the revenue growth rate of insurance brokerage business and advisory service on insurance products during the projection period would be maintained at 0% growth due to the Management's estimation that uncertainty in the business environment due to the outbreak of COVID-19 since the end of 2019 would be continued in the coming projection period. Furthermore, the trade war between China and the United States as well as the tightening control of fund transfer from China to Hong Kong during FY2020 had led to unfavourable impact to the Advisory Income from customers of the Financial Advisory Company.

In this regard, the Management considered that based on the existing client portfolio of Mass Fidelity and the above factors, it is appropriate to adjust the growth rate of revenue from FY2019's 5% to FY2020's 0%, which is reasonable and prudent since the Management expected the existing client portfolio would continue to generate stable source of commission income from insurance brokerage services to Mass Fidelity.

Cost of income and administrative expenses

Cost of income mainly comprised of commission expenses paid to agents and staff of Mass Fidelity. The amount for FY2020 was approximately HK$1.0 million, which represented 50% of the revenue for the year. Based on the assessment, the Management estimated the impact of COVID-19 will seriously affect the performance of Blue Pool Group and concluded that a 0% growth rate will be adopted for the cost of income. Such estimation is in line with the Management's forecast that a 0% growth is expected from the revenue during the forecast period, in light of the substantial composition of cost of income by commission expenses incurred by staff and agents which are largely correlated to sales performance. According to the commission arrangement between the Company and its insurance agents, as an incentive to encourage insurance agents, a higher portion of commission will be granted in the first year of their contracts and such proportion will drop gradually in subsequent years. The Management expected that COVID-19 will have severe impact for the Company's insurance agents to approach potential investors especially in China, due to travel restrictions and quarantine measures in force implemented by authorities to prevent the spread of COVID-19, which has significantly increased the difficulties for insurance agents to promote insurance products because it requires frequent cross-border travels for close follow-up and detailed explanation to persuade investors to invest on such products. With the view of the Management that the insurance brokerage services had been increasingly focused in China, it is concluded that such travel restrictions and quarantine measures would likely weaken the revenue growth and, on the other hand, the corresponding commission expense growth in the forecast period, since there is no foreseeable timetable that a reliable remedy for COVID-19 will be available globally and the Management is uncertain whether these travel restrictions and quarantine measures would be released in the forecast period.

For the administrative expenses, the amount for FY2020 was approximately HK$3.3 million, mainly composed of office expenses, depreciation expense of fixed assets and right-of-use asset and other overhead costs that could not be directly attributable to the services provided to the customers of Blue Pool Group. The growth rate of administrative expenses was also adjusted from 3% to 2.3% by reference to over five years of the general consumer price index ("**CPI**") in Hong Kong, on the grounds that the Management considered that operation of the Blue Pool Group is in Hong Kong and the general CPI could prudently reflect the expected change of administrative expenses in the projection period.

Terminal growth rate

Cash flows beyond the projection period were projected by the valuer using a growth rate of 2.3% per annum by extrapolating the projections based on the five years average of the general CPI in Hong Kong in accordance with paragraph 33(c) of HKAS 36. However, taken into consideration of the result of negative discounted present value of the value in use of the Blue Pool Group CGU across the 5-year projection period, the Management determined that it was more appropriate and prudent to adopt a 0% terminal growth rate for the determination of terminal value in the impairment assessment of the intangible asset of Blue Pool Group.

Determination of discount rate

It is stated in paragraph B17 of Hong Kong Financial Reporting Standards 13 "Fair Value Measurement" ("**HKFRS 13**") that:–

(b) Method 1 of the expected present value technique (see paragraph B25) uses risk-adjusted expected cash flows and a risk-free rate.

And paragraph B25 of HKFRS 13 states the follows:–

Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e. market) risk by subtracting a cash risk premium (i.e. risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow.

From the view of Management, it was appropriate for the valuer to use the weighted average cost of capital ("**WACC**") as discount rate as it is a financial metric used to measure the cost of capital to an entity. Also, it fulfilled the requirement of HKFRS 13 as stated above.

When determining the WACC, the valuer has considered the business operation, debt to equity ratio and the size of Blue Pool Group and its peer competitors in Hong Kong and China, as well as other factors such as industry specific risk, to arrive at a suitable WACC for discounting purpose. Accordingly, the Management assessed the information extracted by the valuer and concluded that the discount rate used in the 2020 Cash Flow Forecast was appropriate.

On behalf of the Board
WLS Holdings Limited
So Yu Shing
Chairman

Hong Kong, 10 September 2020

As at the date of this announcement, the Board comprises Dr. So Yu Shing (Chairman and Executive Director), Mr. Kong Kam Wang (Executive Director and Chief Executive Officer), Ms. Lai Yuen Mei, Rebecca (Executive Director), Mr. So Wang Chun, Edmond (Executive Director), Mr. Tse Fung Chun (Executive Director), Mr. Law Man Sang (Independent Non-executive Director), Ms. Lam Wai Yu (Independent Non-executive Director) and Mr. Lo Ka Ki (Independent Non-executive Director).

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 "Latest Company Announcements" page of the GEM website and on the website of the Company at www.wls.com.hk at least 7 days from the date of its posting.

* *For identification purposes only*