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 2019

Reference is made to the annual report ("**Annual Report**") of the Company published on 30 July 2019 in relation to the audited consolidated results of the Company and its subsidiaries for the year ended 30 April 2019. 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 initial recognition and the impairment of goodwill and intangible assets of the Group for the years ended 30 April 2018 and 2019.

INITIAL RECOGNITION OF GOODWILL AND INTANGIBLE ASSETS AS AT THE COMPLETION DATE ON 21 MARCH 2018

Background information

On 21 March 2018 ("**Completion Date**"), the Company completed the acquisition ("**Acquisition**") of 100% equity interest in Blue Pool Ventures Limited ("**Blue Pool**") and its subsidiary Mass Fidelity Asset Management Limited ("**Mass Fidelity**") (hereafter collectively referred as the "**Blue Pool Group**") pursuant to the sale and purchase agreement dated 5 February 2018 entered into between the Group and Mr. Leung Wai Ho ("**Vendor**"). 1,600,000,000 new shares of the Company were issued to the Vendor as consideration of the Acquisition. The fair value of the consideration shares based on the market price of the shares of the Company on the Completion Date was HK$68,800,000.

* *For identification purpose only*

Blue Pool is an investment holding company and Mass Fidelity is engaged in asset management business which provides brokerage services to various types of insurance and related products. Mass Fidelity is a licensed insurance broker with The Hong Kong Confederation of Insurance Brokers (No. 0486) and is registered as an MPF Corporate Intermediary at the Mandatory Provident Fund Scheme Authority (Registration No. IC001011).

Adoption of the income approach and the multi-period excess earnings method

According to Hong Kong Financial Reporting Standard 3 "*Business Combination*" ("**HKFRS 3**"), the Company has accounted the Acquisition as a business combination and applied the acquisition method in recognizing the identifiable assets acquired and the liabilities assumed. The Company engaged an independent valuer to assist them to determine the fair value of each identifiable asset acquired and the liabilities assumed.

In determining the fair value of Blue Pool Group as at the Completion Date, the directors of the Company (the "**Directors**") prepared and estimated the future cash flows expected to arise from Blue Pool Group based on the financial budgets covering a 5-year period (the "**Cash Flow Forecast**") and the independent valuer used the Cash Flow Forecast as the basis to arrive at the fair value by using income approach.

The Hong Kong Financial Reporting Standard 13 "*Fair Value Measurement*" ("**HKFRS 13**") states that "*the income approach converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.*"

Therefore, the income approach used is consistent with the requirement of HKFRS 13 and that it is a commonly adopted practice of valuers when using income approach to arrive at the fair value of a cash generating unit ("**CGU**"). Details of assumptions in the Cash Flow Forecasts are shown in the section below in this announcement.

During the preparation of Cash Flow Forecast as at the Completion Date, the Company considered that it was probable that expected future economic benefits attributable to the insurance broker license of Blue Pool ("**License**") would flow into the entity and the License was identified as an intangible asset to be recognised during the Acquisition.

Paragraph B11(C) of HKFRS 13 provides an illustration of the valuation techniques under income approach as follows:–

"*the multi-period excess earnings method, which is used to measure the fair value of some intangible assets.*"

Accordingly, the Directors considered that the multi-period excess earnings method was appropriate for determination of the fair value of the intangible asset.

The fair value of the License measured by adopting the multi-period excess earning method as at the Completion Date amounted to HK$41,900,000. In determining the excess earning attributed from the License, the Directors excluded the other income derived from administrative and supporting services, consultancy and advisory services which were not directly generated from the License.

Accordingly, the net amount of the identifiable assets acquired and the liabilities assumed as at the date of Acquisition amounted to HK$43,434,000 and the overall fair value of Blue Pool Group derived by using income approach is approximately HK$68,800,000. According to the requirement in paragraph 32 of HKFRS 3, the Company recognized the excess of the fair value of Blue Pool Group over the aforesaid net amount of the identifiable assets acquired and the liabilities assumed as at the date of Acquisition as goodwill, which amounted to HK$25,366,000 as at the Completion Date.

IMPAIRMENT ASSESSMENT OF INTANGIBLE ASSET AND GOODWILL AS AT 30 APRIL 2018

The Directors performed impairment review of the carrying amounts of intangible assets and goodwill as at 30 April 2018 in accordance with HKAS 36.

HKAS 36 defines impairment loss as the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. Recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use.

Since there are insufficient comparable transactions in the market as at the year-end date, the Directors measured the recoverable amount of the cash-generating unit (i.e. the Blue Pool Group) ("**Blue Pool Group CGU**") to which the goodwill and the intangible asset had been allocated by estimating its value of use. The Directors considered that goodwill and the intangible asset belonged to the same CGU (i.e. Blue Pool Group CGU) based on their judgement.

Estimating the value of use of an asset or CGU 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 amounts of the Blue Pool Group CGU, which is equivalent to the business value of the Blue Pool Group, the Directors prepared and estimated the future cash flows expected to arise from Blue Pool Group based on financial budgets covering a 5-year period. Since there was no significant variance or event happening between the Completion Date and the year-end date of 2018, the Directors adopted the same assumptions and discount rate in preparing the Cash Flow Forecast as at 30 April 2018 ("**2018 Cash Flow Forecast**") and the Cash Flow Forecast as at the Completion Date. As there is no change in assumptions adopted in the two Cash Flow Forecasts, the recoverable amount of the Blue Pool Group CGU was HK$68,900,000 as at 30 April 2018 and no impairment was expected.

It is disclosed in the consolidated financial statements of the Company for the year ended 30 April 2018 that the Directors used value in use for impairment assessment of goodwill and intangible asset. 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 value in use as determined by the Directors exceeded the carrying amount of the Blue Pool Group, the Directors concluded that the asset was not impaired.

IMPAIRMENT ASSESSMENT OF INTANGIBLE ASSET AND GOODWILL AS AT 30 APRIL 2019

The Directors performed impairment review of the carrying amounts of the Blue Pool Group CGU as at 30 April 2019 according to HKAS 36 by using the value in use.

In preparing the Cash Flow Forecast as at 30 April 2019 ("**2019 Cash Flow Forecast**"), the Directors anticipated certain income which was expected to be received by Blue Pool Group in preparing the 2018 Cash Flow Forecast as no longer applicable due to the change in the business environment and suspension of certain business cooperation during the year ended 30 April 2019. Therefore, the Directors updated the expected annual revenue of Blue Pool Group for the year ending 30 April 2020 in preparing the 2019 Cash Flow Forecast.

Based on the 2019 Cash Flow Forecast, the recoverable amounts of Blue Pool Group only amounted to HK$34,600,000 as at 30 April 2019. According to paragraph 104 of the HKAS 36:–

"*An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order: (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and (b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).*"

Therefore, the Directors have determined impairment of goodwill and intangible assets directly related to Blue Pool Group CGU amounting to HK$25,366,000 and HK$7,300,000 respectively. No other write-down of the assets of assets management business was considered necessary.

CASH FLOW FORECASTS AS AT COMPLETION DATE, 30 APRIL 2018 AND 30 APRIL 2019

Details of how the Directors estimated the future cash flows included in the Cash Flow Forecasts as at Completion Date, 30 April 2018 and 30 April 2019 respectively are explained below.

Revenue and other income (for the Cash Flow Forecasts as at Completion Date and 30 April 2018)

Based on the Directors' estimation, the revenue of Blue Pool Group would be mainly contributed by Mass Fidelity's commission income and referral fee from insurance brokerage ("**Insurance Brokerage Fee**"), and commission income ("**Commission Income**") from a financial advisory company ("**Financial Advisory Company**").

Insurance Brokerage Fee covered the following areas of services including introducing, advising to and arranging a contract of insurance to potential customers and professional charges on insurance brokerage service, mainly involved in arranging various types of contracts of insurance provided by global insurance providers for customers. With reference to the general consumer price index ("**CPI**") in Hong Kong, the Directors had taken the growth rate of 3% for per annum for the revenue from the insurance brokerage business.

For the Commission Income, the Directors noted that there would be new business cooperation between Mass Fidelity and the Financial Advisory Company as an agent to provide advisory service on insurance products to the Financial Advisory Company's customers. The Financial Advisory Company is engaged in financial planning and wealth management services. It also has formed partnership with a wide range of global insurance providers to offer various types of insurance products.

At the time of preparation of the Cash Flow Forecast as at 30 April 2018, management of Mass Fidelity was in negotiations with the Financial Advisory Company for several cooperation and the Directors expected that a formal agreement would be entered into by both parties in the very near future. The management of Mass Fidelity considered that the eventual successful outcome of the negotiations would enable Mass Fidelity to receive commission income from the Financial Advisory Company and help to expand the insurance brokerage business.

Besides, Mass Fidelity also offered to provide administration and advisory services ("**Administration and Advisory Services**") to the Financial Advisory Company which enable Mass Fidelity to receive a service fee.

A memorandum of understanding ("**MOU**"), which was effective for one year from the date thereof, was subsequently entered into between Mass Fidelity and the Financial Advisory Company in July 2018 and expired in July 2019.

Cost of sales and administrative expenses (for the Cash Flow Forecast as at Completion Date and 30 April 2018)

With the increase in the revenue, the Directors estimated that the salary cost would increase accordingly for Insurance Brokerage Fee and Commission Fee. The Directors considered that the growth rate should be consistent with the increase in revenue, so a 3% growth rate was adopted for cost of sales.

For the growth rate of administrative expenses, Directors has taken the average of the general CPI in Hong Kong over the past five years (i.e. 2.5% per annum) as the growth rate. This expected inflation rate was determined based on the Directors' estimate and their market research.

Revenue and other income from insurance brokerage and advisory income (For Cash Flow Forecast as at 30 April 2019)

In preparing the Cash Flow Forecast, the Directors anticipated the expiry of the MOU without further business cooperation between the Financial Advisory Company and Mass Fidelity. During the year 2019, the Financial Advisory Company which focused on customers from China, suffered decline in the second half of 2018, due to the launch and implementation of Common Reporting System in the second half of 2018, 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. In view of that, the Directors had not taken into account the expected revenue from the Financial Advisory Company when preparing the Cash Flow Forecast for the year 2019.

On the other hand, the Directors adjusted the growth rate of revenue in providing insurance brokerage services from 3% to 5% when preparing the Cash Flow Forecast as at 30 April 2019 as Mass Fidelity has recorded a growing trend of revenue during the year ended 30 April 2019.

Cost of sales and administrative expenses (for the Cash Flow Forecast as at 30 April 2019)

As stated above, the Directors take reference of the CPI in Hong Kong as the growth rate in cost of sales and administrative expenses. The Directors adjusted the growth rate in cost of sales from 3% to 4%, which was in line with the increase with revenue. For the administrative expenses, the growth rate was also adjusted from 2.5% to 2.9% by reference to over five years of CPIs in Hong Kong.

TERMINATED GROWTH RATE ADOPTED FOR PREPARATION OF CASH FLOW FORECASTS

Cash flows beyond the projection period were projected using a growth rate of 3% per annum by extrapolating the projections based on the forecasts for the fourth and fifth years of the projection period and taking reference of the average inflation rate in Hong Kong. This is in accordance with paragraph 33(c) of HKAS 36 which states that "*in measuring value in use an entity shall estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified*".

DETERMINATION OF DISCOUNT RATE

The valuer adopted weighted average cost of capital ("**WACC**") as discount rate when applying present value techniques. WACC is frequently used in assessing the value of investments and applying as the discount rate for future cash flows in order to derive a business's net present value.

From the view of Directors, it was appropriate for the valuer to use WACC as discount rate as it is a financial metric used to measure the cost of capital to a firm. Directors assessed the information extracted by the valuer and concluded that the discount rate used in Cash Flow Projection was appropriate.

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

8 October 2019

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. Yuen Chun Fai (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.