YONGAN HOLDINGS

浙江永安融通控股股份有限公司

ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8211)

SUPPLEMENTAL ANNOUNCEMENT REGARDING ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the annual report for the year ended 31 December 2019 (the "**Annual Report**") of Zhejiang Yongan Rongtong Holdings Company Limited (the "**Company**", together with the subsidiaries, the "**Group**"). Terms used herein shall have the same meanings as defined in the Annual Report unless the context requires otherwise.

The Company would like to provide the following supplemental information relating to the impairment loss of interest in associates in the amount of approximately RMB31.2 million (the "**Impairment Loss**"):

Reasons for the Impairment Loss

The Impairment relates to the Group's acquisition of 41.67% equity interest in the Target Company (the "**Acquisition**") listed on NEEQ for RMB90 million (the "**Consideration**") on 20 August 2019. A goodwill with carrying amount of approximately RMB38.7 million (the "**Goodwill**") was generated from the Acquisition.

Following the recognition of the Goodwill, an impairment review on the Goodwill is required under HKAS 36 Impairment of Assets. The Company engaged AVISTA Valuation Advisory Limited (the "**Valuer**"), an independent qualified valuer, in December 2019 to perform the impairment assessment as of 20 August 2019.

During the impairment assessment performed by the Valuer, the Company provided the Valuer with the financial forecast for the Target Company for the eight years ending 31 December 2027 (the "**Forecast**") based on the latest performance and future business plan of the Target Company. This was considered necessary because of the valuation methodology (ie. income approach) adopted by the Valuer. In preparation of the Forecast, the Board has taken the following factors into account to predict the projections therein:

(i) The increasing risk of changes in government regulation in the People's Republic of China (the "**PRC**") of the public-private partnership (the "**PPP**") project financing market that may limit future growth of the Target Company. The impact of the changes in government regulations led to falling market growth rate and finance difficulties of PPP projects initiated by the local governments. As a result, many local government authorities either deferred or cancelled tendering of certain projects; and

(ii) The Target Company was undergoing strategic business shift to new water management related business.

The figures in the Forecast was estimated with a more prudent approach after taking into account the adverse impact brought by the regulatory change, tightening control on the PPP project financing and the strategic business shift, which formed the basis of the valuation model adopted by the Valuer. The recoverable amount in the cash-generating unit (the "**CGU**") of approximately RMB58.8 million was below the carrying amount of the CGU by approximately RMB31.2 million. Such shortfall was provided and included in the consolidated financial statement of the Company for the year ended 31 December 2019. The Impairment, which was reviewed by the audit committee of the Company and then approved by the Board, was finally reviewed and concurred by the independent auditors of the Company. The valuation reflected a prudent and sensible forecast of the Target Company under the recent regulatory change and tightening on the PPP project financing in the PRC and the Impairment was required to be recognized in the statement of profit or loss.

Valuation Methodology and Basis

In relation to the Acquisition in August 2019, the Goodwill with carrying amount of approximately RMB38.7 million was generated from the Acquisition.

An impairment review on the Goodwill is required under HKAS 36 Impairment of Assets. The CGU is impaired if the carrying amount exceeds its recoverable amount. The recoverable amount of the CGU is the higher of fair value less cost to sell and value-in-use.

As the Target Company recorded a significant drop in revenue and a loss of approximately RMB26.7 million for the eight months period ended 31 August 2019, there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants under current market conditions. Therefore, fair value less cost of disposal cannot be measured. Consequently, the Board and the Valuer believe that the value-in-use of the Target Company which was derived by the present value of the future cash flows under the discounted cash flow method of the income approach would be the most appropriate approach in reaching the recoverable amount.

Value of Inputs

Consequently, due to change of the valuation approach, a different set of inputs and assumptions was adopted. Value-in-use calculation adopted cash flow projections based on the Forecast prepared by the Company according to the latest financial budgets covering eight years period approved by the Board. The Company understands that the key factors that had been taken into account in reaching the recoverable amount of the Target Company include:

- The revenue of the Target Company for the year ending 31 December 2020 is estimated to be approximately RMB70,803,000. From 2020 to 2027, the Compound Annual Growth Rate ("CAGR") of the Target Company is estimated to be approximately 10.9% per annum, the adoption of the growth rates has been made with reference to its historical growth rate of the Target Company, the future business plan and project pipeline of the Target Company provided by the Company;

- The net profit of the Target Company for the year ending 31 December 2020 is estimated to be approximately RMB9,613,000. The net profit margin within the period of 2021 and 2027 is estimated to be between 16.9% and 19.2%；

- The terminal growth rate adopted by the Target Company is 3.0% which is mainly referenced to the historical inflation rate of the Target Company's core business operation location; and

- The discount rate adopted for the Target Company is 17.8%, which is determined using the Capital Assets Pricing Model ("CAPM") to derive the weighted average cost of capital (WACC) as the discount rate. A number of factors have been considered in CAPM based on market data, including but not limited to (i) risk free rate; (ii) equity risk premium; (iii) small size risk premium; (iv) company specific risk premium; (v) beta, a measure of non-diversifiable risk, of a number of comparable companies; and (vi) applicable cost of debt of the Target Company.

Basis and Assumptions

The Valuer has also considered a number of factors in arriving the Impairment, including the financial and operating results of the Target Company, the economic outlook in general and the specific economic and competitive elements affecting the business of the Target Company, the industry and the market which it operates, the nature and prospects of the industry of the Target Company's operations and the assumptions and basis of the financial projection prepared by the Board.

The major principal assumptions adopted by the Valuer included (but not limited to) the followings:

(i) There will be no major changes in the existing political, legal, fiscal and economic conditions in the countries that the Target Company is operating;

(ii) The availability of financing will not be a constraint on the forecast growth of the Target Company's operation in accordance with the business plan;

(iii) The information provided and the estimations/representations made by the Board are complete, accurate and reliable; and

(iv) The financial projection has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the Board.

By Order of the Board
Zhejiang Yongan Rongtong Holdings Co., Ltd.*
Wang Hengzhuang
Chairman

Hong Kong, 24 September 2020

As at the date of this announcement, the executive Directors are Mr. Wang Hengzhuang (Chairman), Ms. He Lianfeng (Chief Executive Officer) and Mr. Hu Hua Jun; the non-executive Director is Mr. Ma Jinsong (Deputy Chairman); the independent non-executive Directors are Mr. Zhu Weizhou, Mr. Leng Peng and Ms. Wu Yuejuan.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at www.zj-yongan.com.

* *For identification purposes only*