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道和環球
DAOHE GLOBAL

Daohe Global Group Limited
道和環球集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 915)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

INTERIM RESULTS HIGHLIGHTS:

- Revenue dropped by approximately 2% to approximately US$58.2 million (equivalent to HK$452.8 million) as compared to approximately US$59.4 million (equivalent to HK$462.1 million) for the six months ended 31 October 2017.

- Loss for the six months ended 30 June 2018 amounted to approximately US$11.3 million (equivalent to HK$87.9 million) (six months ended 31 October 2017: approximately US$73.4 million (equivalent to HK$571.1 million)). The loss included non-cash impairment loss on goodwill and amortisation of intangible assets of approximately US$9.7 million (equivalent to HK$75.5 million) (six months ended 31 October 2017: approximately US$73.1 million (equivalent to HK$568.7 million)) and approximately US$6.8 million (equivalent to HK$52.9 million) (six months ended 31 October 2017: approximately US$5.4 million (equivalent to HK$42 million)) respectively. Excluding the non-cash impairment loss on goodwill and amortisation of intangible assets, net of deferred tax credit of approximately US$1.7 million (equivalent to HK$13.2 million) (six months ended 31 October 2017: approximately US$1.4 million (equivalent to HK$10.9 million)), the Group's profit for the period would have been approximately US$3.5 million (equivalent to HK$27.2 million) as compared with a profit of approximately US$3.7 million (equivalent to HK$28.8 million) for the period ended 31 October 2017.

- The Directors have not declared the payment of an interim dividend for the six months ended 30 June 2018.

UNAUDITED INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Daohe Global Group Limited (the "**Company**") announces the unaudited condensed consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2018, together with relevant comparative figures:

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Condensed Consolidated Interim Statement of Profit or Loss

		For the six months ended	
		30 June 2018	31 October 2017
		(Unaudited)	(Unaudited)
	Note	***US$'000***	*US$'000*
REVENUE	*3*	**58,239**	59,375
Cost of sales		**(44,713)**	(44,584)
Gross profit		**13,526**	14,791
Other income		**319**	422
Selling and marketing expenses		**(7,021)**	(6,235)
General and administrative expenses		**(9,988)**	(10,387)
Gain on dissolution of a subsidiary		**8**	–
Share of loss of a joint venture		**(1)**	–
Impairment losses on goodwill	*9*	**(9,700)**	(73,098)
LOSS BEFORE TAX	*4*	**(12,857)**	(74,507)
Income tax credit	*5*	**1,554**	1,071
LOSS FOR THE PERIOD		**(11,303)**	(73,436)
ATTRIBUTABLE TO:			
Owners of the Company		**(11,302)**	(73,434)
Non-controlling interests		**(1)**	(2)
		(11,303)	(73,436)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
(expressed in US cents)	*7*		
Basic *(Note)*		**(0.75)**	(5.12)
Diluted *(Note)*		**(0.75)**	(5.12)

Note:

Adjusted for the effect of share subdivision in August 2017.

Condensed Consolidated Interim Statement of Comprehensive Income

	For the six months ended	
	30 June 2018 (Unaudited)	31 October 2017 (Unaudited)
	US$'000	*US$'000*
LOSS FOR THE PERIOD	**(11,303)**	(73,436)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified subsequently to profit or loss:		
Exchange differences:		
Translation of foreign operations	**(1,955)**	4,286
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(1,955)**	4,286
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(13,258)**	(69,150)
ATTRIBUTABLE TO:		
Owners of the Company	**(13,257)**	(69,148)
Non-controlling interests	**(1)**	(2)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(13,258)**	(69,150)

Condensed Consolidated Interim Statement of Financial Position

	Note	**30 June 2018 (Unaudited)** *US$'000*	31 December 2017 (Audited) *US$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**879**	595
Goodwill	*9*	**57,336**	68,531
Other intangible assets	*8*	**47,257**	54,565
Available-for-sale financial asset		**–**	229
Financial asset at fair value through profit or loss		**229**	–
Investment in a joint venture		**8**	9
Deposits		**342**	349
Deferred tax asset		**4**	12
Total non-current assets		**106,055**	124,290
CURRENT ASSETS			
Inventories		**234**	55
Available-for-sale financial asset		**–**	765
Trade receivables	*10*	**10,799**	8,578
Prepayments, deposits and other receivables		**6,981**	4,653
Cash and cash equivalents		**14,327**	13,278
Total current assets		**32,341**	27,329
CURRENT LIABILITIES			
Trade payables	*11*	**6,613**	5,384
Accruals, provisions and other payables		**11,876**	11,691
Deferred revenue		**–**	1,172
Contract liabilities		**1,435**	–
Loan from a former director	*12(b)*	**3,856**	–
Tax payable		**2,602**	2,487
Total current liabilities		**26,382**	20,734
NET CURRENT ASSETS		**5,959**	6,595
TOTAL ASSETS LESS CURRENT LIABILITIES		**112,014**	130,885
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**11,827**	13,659
Loan from a former director	*12(b)*	**–**	3,856
Post-employment benefits		**470**	474
Provisions		**1,405**	1,405
Total non-current liabilities		**13,702**	19,394
NET ASSETS		**98,312**	111,491
EQUITY			
Share capital		**20,128**	20,128
Reserves		**78,185**	91,371
Equity attributable to owners of the Company		**98,313**	111,499
Non-controlling interests		**(1)**	(8)
TOTAL EQUITY		**98,312**	111,491

Notes:

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

This condensed consolidated interim financial information is presented in United States dollars ("**US$**"), unless otherwise stated.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the period ended 31 December 2017.

Change of financial year end date

Pursuant to the resolution of the Board dated 21 September 2017, the Group's financial year end date has been changed from 30 April to 31 December (the "**Change**") commencing from the financial period ended 31 December 2017. The Change is to align with the financial year end date of the Company with the operating subsidiaries established in the People's Republic of China (the "**PRC**"). This facilitates the preparation of the consolidated financial statements of the Group and for the benefit of the overall development of the Group in the long run.

The condensed consolidated interim financial statements and the related notes presented for the current period covered a six-month period from 1 January 2018 to 30 June 2018 while the corresponding comparative amounts shown for the condensed consolidated interim statement of profit or loss, the condensed consolidated interim statement of comprehensive income and the related notes covered a six-month period from 1 May 2017 to 31 October 2017, which, as a result, may not be comparable with amounts shown for the current period.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The principal accounting policies adopted in the preparation of the condensed consolidated interim financial statements of the Group are consistent with those followed in the preparation of the audited annual financial statements of the Group for the period ended 31 December 2017, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") and interpretation issued by the HKICPA as noted below.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)–Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than HKFRS 9 and HKFRS 15, the adoption of these new and revised HKFRSs and interpretation has had no material impact on the interim financial information of the Group.

HKFRS 9 ***Financial Instruments***

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. The impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(i) *Classification and measurement*

Club membership and unlisted wealth management products of US$994,000 were previously classified as available-for-sale financial assets and measured at fair value through other comprehensive income ("**FVOCI**") under HKAS 39. Under HKFRS 9, they have been classified and measured as financial assets at fair value through profit or loss ("**FVPL**") and the accumulated fair value gain of US$109,000 was reclassified from the available-for-sale financial asset revaluation reserve to the retained earnings on 1 January 2018.

	Available-for-sale financial assets at FVOCI *US$'000*	Financial assets at FVPL *US$'000*
At 1 January 2018	994	–
Reclassify from available-for-sale financial assets at FVOCI to financial assets at FVPL	(994)	994
Restated balance at 1 January 2018	–	994

	Available-for-sale financial asset revaluation reserve *US$'000*	Retained earnings *US$'0000*
At 1 January 2018	109	–
Reclassify accumulated fair value gain from available-for-sale financial asset revaluation reserve to retained earnings	(109)	109
Restated balance at 1 January 2018	–	109

(ii) *Impairment of financial assets*

HKFRS 9 requires an impairment on trades receivables, and deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its trade receivables, and deposits and other receivables. The Group performed a detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade receivables and deposits and other receivables. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

HKFRS 15 ***Revenue from Contracts with Customers***

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at 1 January 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

Prior to the adoption of HKFRS 15, the Group presented sales proceeds received from customers in connection with the unconsumed virtual currency or unconsumed durable virtual items as deferred revenue in the consolidated statement of financial position.

Upon adoption of HKFRS 15, reclassification has been made from deferred revenue to contract liabilities. The adoption of HKFRS 15 has had no significant impact on the opening retained profits as at 1 January 2018. As at 1 January 2018, deferred revenue amounting to US$1,172,000 has been reclassified to contract liabilities.

	Deferred revenue *US$'000*	Contract liabilities *US$'000*
At 1 January 2018	1,172	–
Reclassify from deferred revenue to contract liabilities	(1,172)	1,172
Restated balance at 1 January 2018	–	1,172

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their nature of business and has three reportable operating segments as follows:

(a) trading and supply chain management services;

(b) operation of online social platforms; and

(c) money lending business.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment (loss)/profit, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, gain on dissolution of a subsidiary, share of loss of a joint venture as well as corporate and other unallocated expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue and (loss)/profit for the Group's reportable segments for the six months ended 30 June 2018 and 31 October 2017.

	For the six months ended 30 June 2018			
	Trading and supply chain management services (Unaudited) *US$'000*	**Operation of online social platforms (Unaudited)** *US$'000*	**Money lending business (Unaudited)** *US$'000*	**Total (Unaudited)** *US$'000*
Segment revenue:				
Revenue from external customers	**37,688**	**20,551**	**–**	**58,239**
Segment results	**(8,609)**	**(3,030)**	**(6)**	**(11,645)**
Interest income				**15**
Gain on dissolution of a subsidiary				**8**
Share of loss of a joint venture				**(1)**
Corporate and other unallocated expenses				**(1,234)**
Loss before tax				**(12,857)**
Income tax credit				**1,554**
Loss for the period				**(11,303)**
Other segment information:				
Impairment loss on goodwill	**9,700**	**–**	**–**	**9,700**
Amortisation of intangible assets	**–**	**6,845**	**–**	**6,845**
Depreciation	**83**	**84**	**–**	**167**
Capital expenditures	**62**	**404**	**–**	**466**
Reversal of impairment of trade receivables	**(48)**	**–**	**–**	**(48)**

	For the six months ended 31 October 2017			
	Trading and supply chain management services (Unaudited) *US$'000*	Operation of online social platforms (Unaudited) *US$'000*	Money lending business (Unaudited) *US$'000*	Total (Unaudited) *US$'000*
Segment revenue:				
Revenue from external customers	49,554	9,726	95	59,375
Segment results	(9,981)	(63,012)	40	(72,953)
Interest income				7
Corporate and other unallocated expenses				(1,561)
Loss before tax				(74,507)
Income tax credit				1,071
Loss for the period				(73,436)
Other segment information:				
Impairment losses on goodwill	13,600	59,458	40	73,098
Amortisation of intangible assets	–	5,428	–	5,428
Depreciation	83	73	–	156
Capital expenditures	128	259	–	387
Impairment of trade receivables	79	–	–	79

4. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	For the six months ended	
	30 June 2018 (Unaudited) ***US$'000***	31 October 2017 (Unaudited) *US$'000*
Depreciation	**167**	156
Amortisation of intangible assets	**6,845**	5,428
Gain on dissolution of a subsidiary	**8**	–
(Reversal of impairment)/impairment of trade receivables	**(48)**	79
Impairment losses on goodwill	**9,700**	73,098

5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 31 October 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended	
	30 June 2018	31 October 2017
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Current		
– Hong Kong	**118**	204
– Outside Hong Kong	**34**	89
Net under/(over) provision in prior periods	**1**	(6)
Deferred	**(1,707)**	(1,358)
Total tax credit for the period	**(1,554)**	(1,071)

As at the date of this announcement, the Group received protective assessments amounting to approximately HK$188,000,000 (equivalent to US$24,165,000) from the Inland Revenue Department in Hong Kong (the "**IRD**") in respect of queries on the modus operandi of the Group and the chargeability of the profits for the years of assessment from 2003/2004 to 2011/2012 (the "**Case**"). The Group has lodged objections against the protective assessments. In addition, Tax Reserve Certificates amounting to HK$5,250,000 (equivalent to US$675,000) have been purchased by two subsidiaries of the Company in pursuit of the holdover of tax demanded under the protective assessments for these years.

The Group has submitted a settlement proposal as part of a negotiation with the IRD in relation to the Case in April 2015. Subsequent to the submission to the IRD with the assistance of an external tax specialist, the Group kept a close dialogue with the IRD and understood that the IRD required additional evidence from the Group to further assess the tax position. As at the date of this announcement, the Case was still under negotiation with the IRD. Despite the unknown outcome, the Group is of the view that sufficient tax provisions have been made in the financial statements based on the information available.

6. DIVIDENDS

The Directors have not declared the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 31 October 2017: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period attributable to owners of the Company of approximately US$11,302,000 (six months ended 31 October 2017: US$73,434,000), and the weighted average number of 1,509,592,701 (six months ended 31 October 2017: 1,433,777,483 (adjusted for the effect of share subdivision in August 2017)) ordinary shares in issue during the period.

The Group had no dilutive potential ordinary shares in issue for the periods ended 30 June 2018 and 31 October 2017.

8. PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

	Property, plant and equipment *US$'000*	Other intangible assets *US$'000*	Total *US$'000*
Unaudited			
At 1 January 2018, net of accumulated depreciation and amortisation	**595**	**54,565**	**55,160**
Additions	**466**	**–**	**466**
Depreciation provided during the period	**(167)**	**–**	**(167)**
Amortisation provided during the period	**–**	**(6,845)**	**(6,845)**
Exchange realignment	**(15)**	**(463)**	**(478)**
At 30 June 2018, net of accumulated depreciation and amortisation	**879**	**47,257**	**48,136**
	US$'000	*US$'000*	*US$'000*
Audited			
At 1 May 2017, net of accumulated depreciation and amortisation	269	–	269
Acquisition of subsidiaries	111	59,689	59,800
Additions	419	–	419
Disposals	(3)	–	(3)
Depreciation provided during the period	(209)	–	(209)
Amortisation provided during the period	–	(7,641)	(7,641)
Exchange realignment	8	2,517	2,525
At 31 December 2017, net of accumulated depreciation and amortisation	595	54,565	55,160

9. GOODWILL

	Total *US$'000*
Unaudited	
At 1 January 2018, net of accumulated impairment	**68,531**
Impairment during the period	**(9,700)**
Exchange realignment	**(1,495)**
At 30 June 2018, net of accumulated impairment	**57,336**
Audited	
At 1 May 2017, net of accumulated impairment	26,373
Acquisition of subsidiaries	110,297
Impairment during the period	(73,098)
Exchange realignment	4,959
At 31 December 2017, net of accumulated impairment	68,531

Impairment testing of goodwill

Goodwill has been allocated to the following cash-generating units for impairment testing:

- Trading and supply chain management services;
- Operation of online social platforms; and
- Others.

The recoverable amounts of the cash-generating units have been determined based on value in use calculation using cash flow projections based on financial budgets approved by senior management. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenue and gross margin, timing of future capital expenditures, long term growth rates and selection of discount rates. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine the key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections. The discount rates applied to the cash flow projections for trading and supply chain management services, operation of online social platforms are 12% (31 December 2017: 12%) and 28% (31 December 2017: 28%) respectively. The discount rate applied to others was 10% as at 31 December 2017. The estimated growth rate used to extrapolate the cash flow projections for trading and supply chain management services and operation of online social platforms beyond the five-year period are 0% (31 December 2017: 0%) and 3% (31 December 2017: 2.6%), respectively. The estimated growth rate used to extrapolate the cash flow projections for others beyond the five-year period was 0% as at 31 December 2017.

Impairment loss on goodwill

During the six months ended 30 June 2018, the Group recognised an impairment loss of US$9,700,000 in connection with the goodwill allocated to the trading and supply chain management services (six months ended 31 October 2017: impairment losses of US$13,600,000, US$59,458,000 and US$40,000 in connection with the goodwill allocated to trading and supply chain management services, operation of online social platforms and others, respectively). The businesses of certain Group's customers are being adversely affected by the increasingly competitive and challenging business environment in the trading and supply chain management services and the management expects a future decline in revenue in the trading and supply chain management services due to fewer orders being placed by these customers.

The abovementioned impairment losses are recognised based on the results of impairment tests for the goodwill using their values in use in accordance with HKAS 36.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Trading and supply chain management services		**Operation of online social platforms**		**Others**		**Total**	
	30 June 2018 (Unaudited)	31 December 2017 (Audited)	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
Goodwill	**3,033**	12,733	**54,303**	55,798	**–**	–	**57,336**	68,531

10. TRADE RECEIVABLES

The general credit terms granted to customers range from 30 days to 90 days. An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 (Unaudited) ***US$'000***	31 December 2017 (Audited) *US$'000*
Within 30 days	**7,776**	4,704
31 to 60 days	**1,907**	2,501
61 to 90 days	**565**	456
91 to 365 days	**748**	1,218
Over 1 year	**304**	251
	11,300	9,130
Impairment	**(501)**	(552)
	10,799	8,578

Note:

The trade receivables aged over 90 days are being carefully monitored by management. Approximately US$501,000 (31 December 2017: US$552,000) of these balances was covered by the impairment.

11. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 (Unaudited) ***US$'000***	31 December 2017 (Audited) *US$'000*
Within 30 days	**6,150**	4,329
31 to 60 days	**269**	826
61 to 90 days	**5**	112
91 to 365 days	**121**	47
Over 1 year	**68**	70
	6,613	5,384

12. RELATED PARTY TRANSACTIONS

(a) Other than the balances and transactions detailed elsewhere, the Group had no significant transactions with related parties during the six months ended 30 June 2018 (six months ended 31 October 2017: Nil).

(b) Loan from a former director

At 30 June 2018, the loan from a former director of the Company who resigned on 1 January 2018, is unsecured, non-interest-bearing and repayable by 22 May 2019.

(c) Compensation of key management personnel of the Group:

	For the six months ended	
	30 June 2018 (Unaudited) ***US$'000***	31 October 2017 (Unaudited) *US$'000*
Short term employee benefits	**698**	512
Post-employment benefits – defined contribution plans	**31**	33
Total compensation paid to key management personnel	**729**	545

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

This is the first interim results since the Company changed its financial year end date from 30 April to 31 December starting from the financial year 2017 to align with the financial year of its PRC operating subsidiaries. Therefore, the current financial period covers a period of six months from 1 January 2018 to 30 June 2018 which may not be entirely comparable with last year's results covering a period of six months from 1 May 2017 to 31 October 2017.

During the period under review, the Group managed to achieve a revenue of approximately US$58.2 million (six months ended 31 October 2017: approximately US$59.4 million). The recognised revenue of its trading and supply chain management services, which is its main revenue contributor, slipped slightly due to the decline in business under a difficult business environment. The online social platforms acquired in 2017 achieved an increase of approximately 111.3% in revenue, contributing approximately US$20.6 million of revenue to the Group.

Gross profit decreased by approximately 8.6% to approximately US$13.5 million for the six months ended 30 June 2018 (six months ended 31 October 2017: approximately US$14.8 million), of which approximately US$4.4 million (six months ended 31 October 2017: approximately US$3.1 million) was contributed by the operation of online social platforms.

The operating expenses for the six months ended 30 June 2018 amounted to approximately US$17 million (six months ended 31 October 2017: approximately US$16.6 million). The increase was mainly attributable to the increase in operating expenses in relation to the operation of online social platforms business. This is mainly because the Group completed the acquisition of the online social platforms business on 1 June 2017. Therefore, the business only covered operating expenses of five months for the corresponding period last year, whereas this financial period includes operating expenses over six months.

Loss for the six months ended 30 June 2018 narrowed to approximately US$11.3 million (six months ended 31 October 2017: approximately US$73.4 million). The loss included non-cash impairment loss on goodwill and amortisation of intangible assets of approximately US$9.7 million and approximately US$6.8 million, respectively (six months ended 31 October 2017: non-cash impairment losses on goodwill of approximately US$73.1 million and amortisation of intangible assets of approximately US$5.4 million, respectively). Excluding the non-cash impairment loss on goodwill and amortisation of intangible assets, net of deferred tax credit of approximately US$1.7 million (six months ended 31 October 2017: approximately US$1.4 million), the Group's profit for the period under review would have been approximately US$3.5 million, representing a decrease of approximately 5.4% as compared with a profit of approximately US$3.7 million for the six months ended 31 October 2017.

Segmental Analysis

Operating Segmentation

The Group's business comprises three operating segments: (i) trading and supply chain management services; (ii) operation of online social platforms; and (iii) money lending business.

(i) Trading and supply chain management services

During the period under review, revenue for trading and supply chain management services was approximately US$37.7 million (six months ended 31 October 2017: approximately US$49.6 million), representing approximately 64.7% of the Group's total revenue.

Shipment value for trading and supply chain management services was approximately US$90.9 million (six months ended 31 October 2017: approximately US$110.8 million). The lowered shipments against the six months ended 31 October 2017 were partly due to the decline in business under the difficult business environment.

The shipment value for provision of services and shipment value of trading of merchandise accounted for approximately 64.5% and 35.5% of the Group's total shipment value respectively (six months ended 31 October 2017: approximately 60.9% and 39.1% respectively).

Geographical Analysis	**Shipment value For the six months ended**	
	30 June 2018 (Unaudited) ***US$' million***	31 October 2017 (Unaudited) *US$' million*
North America	**44.2**	55.3
Europe	**21.9**	25.1
Others	**24.8**	30.4
Total	**90.9**	110.8

Shipments to North America were approximately US$44.2 million, contributing approximately 48.6% of the total shipment value.

Shipments to Europe were approximately US$21.9 million and accounted for approximately 24.1% of the total shipment value.

Shipments grouped under "Others", comprising mainly shipments to the southern hemisphere represented approximately 27.3% of the total shipment value.

(ii) Operation of online social platforms

On 1 June 2017, the Group acquired the entire issued share capital of Loovee Holdings Inc. ("**Loovee**"). Loovee, through its subsidiaries, is principally engaged in the operation of online social platforms business. Its products mainly comprise mobile applications, thereby providing various online social and entertainment services to a large number of individual users in the PRC. The segment revenue increased by 111.3% to approximately US$20.6 million (six months ended 31 October 2017: approximately US$9.7 million), contributing around 35.3% of the Group's total revenue.

(iii) Money lending business

There was no loan granted or no new borrower during the period under review (six months ended 31 October 2017: revenue of approximately US$95,000).

Impairment Loss on Goodwill

During the six months ended 30 June 2018, the Group recognised an impairment loss of US$9,700,000 in connection with the goodwill allocated to the trading and supply chain management services (six months ended 31 October 2017: impairment losses of US$13,600,000, US$59,458,000 and US$40,000 in connection with the goodwill allocated to trading and supply chain management services, operation of online social platforms and others, respectively). The businesses of certain Group's customers are being adversely affected by the increasingly competitive and challenging business environment in the trading and supply chain management services and the management expects a future decline in revenue in the trading and supply chain management services due to fewer orders being placed by these customers.

The abovementioned impairment losses are recognised based on the results of impairment tests for the goodwill using their values in use in accordance with HKAS 36. Details of the goodwill are set out in Note 9 of this interim results announcement.

Hong Kong Tax Case

As at the date of this announcement, the Group received protective assessments amounting to approximately HK$188,000,000 (equivalent to US$24,165,000) from the Inland Revenue Department in Hong Kong (the "**IRD**") in respect of queries on the modus operandi of the Group and the chargeability of the profits for the years of assessment from 2003/2004 to 2011/2012 (the "**Case**"). The Group has lodged objections against the protective assessments. In addition, Tax Reserve Certificates amounting to HK$5,250,000 (equivalent to US$675,000) have been purchased by two subsidiaries of the Company in pursuit of the holdover of tax demanded under the protective assessments for these years.

The Group has submitted a settlement proposal as part of a negotiation with the IRD in relation to the Case in April 2015. Subsequent to the submission to the IRD with the assistance of an external tax specialist, the Group kept a close dialogue with the IRD and understood that the IRD has required additional evidence from the Group to further assess the tax position. As at the date of this announcement, the Case was still under negotiation with the IRD. Despite the unknown outcome, the Group is of the view that sufficient tax provisions have been made in the financial statements based on the information available.

Financial Review

Financial Resources and Liquidity

The Group's financial position remained healthy with cash and cash equivalents of approximately US$14.3 million as at 30 June 2018 (31 December 2017: approximately US$13.3 million). In addition, the Group had total banking facilities of approximately US$10.3 million including borrowing facilities of approximately US$0.1 million as at 30 June 2018 (31 December 2017: approximately US$10.3 million and US$0.1 million, respectively).

The Group had a current ratio of approximately 1.2 and a gearing ratio of zero, based on no interest-bearing borrowings and total equity of approximately US$98.3 million as at 30 June 2018. There has not been any material change in the Group's borrowings since 30 June 2018.

As at 30 June 2018, trade receivables amounted to approximately US$10.8 million (31 December 2017: approximately US$8.6 million), which comprised approximately US$9.2 million (31 December 2017: approximately US$8 million) from the trading and supply chain management services business and approximately US$1.6 million (31 December 2017: approximately US$0.6 million) from the operation of online social platforms business.

Gross trade receivables aged over 90 days which amounted to approximately US$1.0 million (31 December 2017: approximately US$1.5 million) related to trading and supply chain management services business, are being carefully monitored by the management and sufficient provision has been made.

The Group's net asset value recorded was approximately US$98.3 million as at 30 June 2018 (31 December 2017: approximately US$111.5 million).

The majority of the Group's transactions during the period under review were denominated in US dollars, Hong Kong dollars and Renminbi. To minimise foreign exchange risks, sales and purchases are generally transacted in the same currency.

As at 30 June 2018, the Group had no material contingent liabilities or guarantees, or charges on any Group assets.

Remuneration Policy and Staff Development Scheme

As at 30 June 2018, the Group had 395 employees (as at 31 December 2017: 400). Total staff costs for the period under review amounted to approximately US$7.8 million (six months ended 31 October 2017: approximately US$7.6 million).

The Group offers competitive remuneration schemes to its employees based on industry practice, and the performance of the individual employee and that of the Group. In addition, the Company has adopted a share option scheme for eligible persons and discretionary bonuses are payable to staff based on his or her individual performance and that of the Group as a whole.

Significant Investments, Material Acquisitions or Disposals

During the six months ended 30 June 2018, the Group did not have any significant investments, material acquisitions or disposals.

Events after the Reporting Period

There have been no material event occurring after the reporting period and up to the date of this interim results announcement.

Prospects

Looking ahead, the management expects the business environment for trading and supply chain management services will remain challenging in the second half year in view of the commencement of the China-US trade war, ongoing uncertainties over the international trade environment and greater market transparency resulting from the rise of the Internet. However, there are always opportunities amid challenges. With an operating history that stretches over half a century in the trading and supply chain management services industry, the Group has encountered many economic cycles and different challenges yet it has always prevailed, which can be attributed to the Group's ability to adapt to change and keep abreast of the times. The Group therefore remains confident that its business will realise sustainable development in the future.

The Group will continue to expand its product offerings and provide more comprehensive value-added services in order to fortify its ties with key customers and to become the preferred partner of these customers. The Group will also make further and optimal use of information technologies to enhance operational efficiency and introduce positive changes to its operations.

Apart from bringing earth-shattering changes to traditional industries, the rise of the Internet has also led to the emergence of new economies, including the operation of online social platforms business in the PRC which the Group introduced last year. To seize on the immense potential presented by the industry, in addition to major cities, the Group will continue to explore third and fourth-tier municipal markets to broaden its user base as well as strive to meet users' demand for a new social networking and entertainment experience.

The Group will continue to develop its two major businesses and look for suitable acquisition and investment opportunities in its bid to allocate resources to projects with promising development potential so as to create optimum returns for its shareholders.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2018 (31 October 2017: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting policies adopted by the Group including review of the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2018. Such condensed consolidated interim financial information has not been audited but has been reviewed by the Company's independent auditor.

CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018, save for the deviation as described below:

Code Provision E.1.2 of the CG Code requires the Chairman of the Board to attend the annual general meeting held on 31 May 2018 (the "**2018 AGM**"). Due to other business commitments, Mr. ZHOU Xijian was not able to attend the 2018 AGM. Mr. HO Chi Kin, an Executive Director and the Chief Financial Officer of the Company, acted as the Chairman of the 2018 AGM to ensure an effective communication with the shareholders of the Company (the "**Shareholders**").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its model code for securities transactions by the Directors. The Company, having made specific enquiries, obtained confirmations from all the Directors that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2018.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "**Employees Written Guidelines**") for securities transactions by relevant employees who are likely to possess unpublished inside information in relation to the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company throughout the six months ended 30 June 2018.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Company (www.daoheglobal.com.hk) and the Stock Exchange (www.hkexnews.hk). The 2018 interim report will be despatched to the Shareholders and available on the above websites in due course.

By Order of the Board
Daohe Global Group Limited
ZHOU Xijian
Chairman and Non-executive Director

Hong Kong, 24 August 2018

As at the date of this announcement, the Non-executive Director of the Company is Mr. ZHOU Xijian, the Executive Directors are Mr. YU Lei, Mr. WONG Hing Lin, Dennis and Mr. HO Chi Kin, and the Independent Non-executive Directors are Mr. WANG Arthur Minshiang, Mr. LAU Shu Yan and Mr. ZHANG Huijun.