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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINAL RESULTS HIGHLIGHTS:

- Revenue of the Group for the year ended 31 December 2018 was approximately US$107.5 million (eight months ended 31 December 2017: approximately US$78.5 million). For the year ended 31 December 2018, the trading and supply chain management services, and operation of online social platforms recorded revenue of approximately US$64.0 million and approximately US$43.5 million respectively, accounted for approximately 59.5% and approximately 40.5% of the Group's total revenue respectively.

- Loss for the year ended 31 December 2018 amounted to approximately US$84.2 million (eight month ended 31 December 2017: approximately US$76.2 million). The loss included non-cash impairment losses on goodwill of approximately US$66.5 million and amortisation and impairment losses on other intangible assets of approximately US$35.0 million (eight months ended 31 December 2017: non-cash impairment losses on goodwill of approximately US$73.1 million and amortisation of other intangible assets of approximately US$7.6 million). Excluding the non-cash impairment losses on goodwill, amortisation and impairment losses on other intangible assets, net of deferred tax credit of approximately US$8.7 million (eight months ended 31 December 2017: approximately US$1.9 million), the Group's profit for the year ended 31 December 2018 would be approximately US$8.6 million (eight months ended 31 December 2017: approximately US$2.6 million).

- The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018.

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Daohe Global Group Limited (the "**Company**") announces the condensed consolidated financial information of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2018, together with comparative figures for the eight months ended 31 December 2017, as follows:

CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Condensed Consolidated Statement of Profit or Loss

	Note	**Year ended 31 December 2018** *US$'000*	Eight months ended 31 December 2017 *US$'000*
REVENUE	*3*	**107,513**	78,527
Cost of sales		**(79,799)**	(60,282)
Gross profit		**27,714**	18,245
Other income		**846**	543
Selling and marketing expenses		**(12,196)**	(8,638)
General and administrative expenses		**(20,845)**	(14,931)
Gain on disposal of subsidiaries		**7**	–
Gain on dissolution of a subsidiary		**8**	–
Share of loss of a joint venture		**(1)**	(1)
Impairment losses on goodwill	*9*	**(66,496)**	(73,098)
Impairment losses on other intangible assets	*8*	**(21,747)**	–
LOSS BEFORE TAX	*4*	**(92,710)**	(77,880)
Income tax credit	*5*	**8,536**	1,690
LOSS FOR THE YEAR/PERIOD		**(84,174)**	(76,190)
ATTRIBUTABLE TO:			
Owners of the Company		**(84,160)**	(76,187)
Non-controlling interests		**(14)**	(3)
		(84,174)	(76,190)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
(expressed in US cents)	*7*		
Basic		**(5.58)**	(5.24)
Diluted		**(5.58)**	(5.24)

Condensed Consolidated Statement of Comprehensive Income

	Year ended 31 December 2018 *US$'000*	Eight months ended 31 December 2017 *US$'000*
LOSS FOR THE YEAR/PERIOD	**(84,174)**	(76,190)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(2,969)**	6,740
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:	**(2,969)**	6,740
Other comprehensive income that will not be classified to profit or loss in subsequent periods:		
Remeasurements from defined benefit plan	**50**	20
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR/PERIOD	**(2,919)**	6,760
TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD	**(87,093)**	(69,430)
ATTRIBUTABLE TO:		
Owners of the Company	**(87,079)**	(69,427)
Non-controlling interests	**(14)**	(3)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD	**(87,093)**	(69,430)

Condensed Consolidated Statement of Financial Position

	Note	**2018** *US$'000*	2017 *US$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**716**	595
Goodwill	*9*	**–**	68,531
Other intangible assets	*8*	**18,476**	54,565
Available-for-sale financial asset		**–**	229
Financial asset at fair value through profit or loss		**270**	–
Investment in a joint venture		**8**	9
Deposits		**349**	349
Deferred tax asset		**4**	12
Total non-current assets		**19,823**	124,290
CURRENT ASSETS			
Inventories		**262**	55
Available-for-sale financial asset		**–**	765
Trade receivables	*10*	**8,774**	8,578
Prepayments, deposits and other receivables		**4,416**	4,653
Cash and cash equivalents		**17,192**	13,278
Total current assets		**30,644**	27,329
CURRENT LIABILITIES			
Trade payables	*11*	**3,799**	5,384
Accruals, provisions and other payables		**7,792**	11,691
Deferred revenue		**–**	1,172
Contract liabilities		**1,521**	–
Loan from a former director	*12(b)*	**3,856**	–
Tax payable		**2,446**	2,487
Total current liabilities		**19,414**	20,734
NET CURRENT ASSETS		**11,230**	6,595
TOTAL ASSETS LESS CURRENT LIABILITIES		**31,053**	130,885

	Note	2018 US$'000	2017 US$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,632**	13,659
Loan from a former director	*12(b)*	**–**	3,856
Post-employment benefits		**414**	474
Provisions		**1,405**	1,405
Total non-current liabilities		**6,451**	19,394
NET ASSETS		**24,602**	111,491
EQUITY			
Share capital		**20,128**	20,128
Reserves		**4,409**	91,371
Equity attributable to owners of the Company		**24,537**	111,499
Non-controlling interests		**65**	(8)
TOTAL EQUITY		**24,602**	111,491

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under historical cost convention, except for available-for-sale financial assets and financial asset at fair value through profit or loss ("**FVPL**") which have been measured at fair value. These financial statements are presented in United States dollars ("**US$**") and all values are rounded to the nearest thousand except when otherwise indicated.

Change of financial year end date

Pursuant to the resolution of the Directors of the Company dated 21 September 2017, the Group's financial year end date has been changed from 30 April to 31 December commencing from the financial period ended 31 December 2017. Accordingly, the condensed consolidated financial statements and the related notes presented for the current year covered a twelve-month period from 1 January 2018 to 31 December 2018 while the corresponding comparative amounts shown for these financial statements and the related notes covered an eight-month period from 1 May 2017 to 31 December 2017, and as a result, may not be comparable with amounts shown for the current year.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and amendments to HKFRSs for the first time for the preparation of the Group's current year's financial statements:

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*
HK (IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and amendments to the standards has had no significant financial effect on these financial statements.

(a) 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 namely: classification and measurement, impairment and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity on 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement		Re–classification	Expected credit loss	HKFRS 9 measurement	
		Category	Amount			Amount	Category
	Note		*US$'000*	*US$'000*	*US$'000*	*US$'000*	
Financial assets							
Available-for-sale financial assets	*(i)*	AFS[1]	994	(994)	–	–	N/A
Financial assets at fair value through profit or loss	*(i)*	N/A	–	994	–	994	FVPL[4]
Trade receivables	*(ii)*	L&R[2]	8,578	–	–	8,578	AC[3]
Financial assets included in prepayments, deposits and other receivables	*(ii)*	L&R[2]	4,531	–	–	4,531	AC[3]
Cash and cash equivalents		L&R[2]	13,278	–	–	13,278	AC[3]
			27,381	–	–	27,381	

	HKAS 39 measurement		Re–classification	Expected credit loss	HKFRS 9 measurement	
	Category	Amount			Amount	Category
		US$'000	*US$'000*	*US$'000*	*US$'000*	
Financial liabilities						
Trade payables	AC[3]	5,384	–	–	5,384	AC[3]
Loan from a former director	AC[3]	3,856	–	–	3,856	AC[3]
Financial liabilities included in accruals, provisions and other payables	AC[3]	6,591	–	–	6,591	AC[3]
		15,831	–	–	15,831	

[1]AFS : Available-for-sale financial assets
[2]L&R : Loans and receivables
[3]AC : Financial assets or financial liabilities at amortised cost
[4]FVPL : Financial assets at fair value through profit or loss

Note:

(i) 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 reclassified and measured as FVPL.

(ii) The gross carrying amount of the trade receivables under the column "HKAS 39 measurement – Amount" represents the amount after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the expected credit loss allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017 *US$'000*	Re-measurement *US$'000*	Expected credit loss allowances under HKAS 39 at 1 January 2018 *US$'000*
Trade receivables	552	–	552

Impact on reserves and accumulated losses

The impact of transition to HKFRS 9 on reserves and accumulated losses is as follows:

	Available-for-sale financial asset revaluation reserve *US$'000*	Accumulated losses *US$'000*
At 1 January 2018 under HKAS 39	109	(69,283)
Reclassify accumulated fair value gain from available-for-sale financial asset revaluation reserve to accumulated losses	(109)	109
Restated balance at 1 January 2018 under HKFRS 9	–	(69,174)

(b) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new 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 principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

Liabilities	*Note*	Increase/ (decrease) *US$'000*
Accruals, provisions and other payables	*(i)*	(101)
Deferred revenue	*(ii)*	(1,172)
Contract liabilities	*(i),(ii)*	1,273

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on consolidated statement of profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
			Previous	**Increase/**
		HKFRS 15	**HKFRS**	**(decrease)**
	Note	***US$'000***	***US$'000***	***US$'000***
Accruals, provisions and other payables	*(i)*	**7,792**	**8,068**	**(276)**
Deferred revenue	*(ii)*	**–**	**1,245**	**(1,245)**
Contract liabilities	*(i),(ii)*	**1,521**	**–**	**1,521**

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 is described below:

Note:

(i) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as accruals, provisions and other payables. Under HKFRS 15, the amount is classified as contract liabilities. Therefore, upon adoption of HKFRS 15, the Group reclassified US$101,000 from accruals, provisions and other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018. As at 31 December 2018, under HKFRS 15, US$276,000 was reclassified from accruals, provisions and other payables to contract liabilities in relation to the consideration received from customers in advance for the sales of merchandise and provision of advertising service.

(ii) Deferred revenue

Before 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. Under HKFRS 15, the amount is classified as contract liabilities. Therefore, upon adoption of HKFRS 15, the Group reclassified US$1,172,000 from deferred revenue to contract liabilities as at 1 January 2018 in relation to the unconsumed virtual currency or unconsumed durable virtual items as at 1 January 2018. As at 31 December 2018, under HKFRS 15, US$1,245,000 was reclassified from deferred revenue to contract liabilities in relation to the unconsumed virtual currency or unconsumed durable virtual items in the operation of online social platforms.

3. REVENUE AND 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, 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 disposal of subsidiaries, 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 for the Group's reportable segments for the year ended 31 December 2018 and eight months ended 31 December 2017.

Year ended 31 December 2018	**Trading and supply chain management services** *US$'000*	**Operation of online social platforms** *US$'000*	**Money lending business** *US$'000*	**Total** *US$'000*
Segment revenue:				
Revenue from external customers	**63,968**	**43,545**	**–**	**107,513**
Segment results	**(10,814)**	**(79,702)**	**(7)**	**(90,523)**
Bank interest income				**30**
Gain on disposal of subsidiaries				**7**
Gain on dissolution of a subsidiary				**8**
Share of loss of a joint venture				**(1)**
Corporate and other unallocated expenses				**(2,231)**
Loss before tax				**(92,710)**
Income tax credit				**8,536**
Loss for the year				**(84,174)**
Other segment information:				
Impairment losses on goodwill	**12,733**	**53,763**	**–**	**66,496**
Impairment losses on other intangible assets	**–**	**21,747**	**–**	**21,747**
Amortisation of other intangible assets	**–**	**13,266**	**–**	**13,266**
Depreciation	**150**	**193**	**–**	**343**
Capital expenditures	**68**	**414**	**–**	**482**
Impairment of trade receivables	**54**	**–**	**–**	**54**

Eight months ended 31 December 2017	Trading and supply chain management services *US$'000*	Operation of online social platforms *US$'000*	Money lending business *US$'000*	Total *US$'000*
Segment revenue:				
Revenue from external customers	63,682	14,750	95	78,527
Segment results	(9,927)	(65,981)	32	(75,876)
Bank interest income				9
Share of loss of a joint venture				(1)
Corporate and other unallocated expenses				(2,012)
Loss before tax				(77,880)
Income tax credit				1,690
Loss for the period				(76,190)
Other segment information:				
Impairment losses on goodwill	13,600	59,458	40	73,098
Amortisation of other intangible assets	–	7,641	–	7,641
Depreciation	111	98	–	209
Capital expenditures	152	267	–	419
Impairment of trade receivables	171	–	–	171

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2018 *US$'000*	Eight months ended 31 December 2017 *US$'000*
People's Republic of China (the "**PRC**")	**47,008**	17,350
Australia	**18,546**	25,296
North America	**18,113**	19,183
Africa	**14,514**	10,383
Europe	**7,592**	5,109
Others	**1,740**	1,206
	107,513	78,527

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2018	2017
	US$'000	*US$'000*
PRC	**18,888**	110,499
Hong Kong	**614**	13,467
Others	**47**	83
	19,549	124,049

The non-current asset information above is based on the location of assets and excludes an available-for-sale financial asset, FVPL and deferred tax asset.

Information about major customers

Revenue from major customers, which individually amounted to 10% or more of the Group's revenue is set out below:

	Operating segment	Year ended 31 December 2018	Eight months ended 31 December 2017
		US$'000	*US$'000*
Customer A	Trading and supply chain management services	**17,598**	24,298
Customer B	Trading and supply chain management services	**14,514**	13,696
Customer C	Trading and supply chain management services	**9,672**	10,383
		41,784	48,377

4. LOSS BEFORE TAX

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

	Year ended 31 December 2018	Eight months ended 31 December 2017
	US$'000	*US$'000*
Cost of inventories sold	**45,475**	48,416
Cost of services provided	**34,324**	11,866
Depreciation	**343**	209
Amortisation of other intangible assets	**13,266**	7,641
Gain on disposal of property, plant and equipment	**(19)**	(22)
Impairment losses on goodwill	**66,496**	73,098
Impairment losses on other intangible assets	**21,747**	–
Impairment of trade receivables	**54**	171
Gain on disposal of subsidiaries	**(7)**	–
Gain on dissolution of a subsidiary	**(8)**	–
Fair value gain on FVPL	**(41)**	–

5. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (eight months ended 31 December 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2018. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Year ended 31 December 2018 *US$'000*	Eight months ended 31 December 2017 *US$'000*
Current		
– Hong Kong	**155**	190
– Outside Hong Kong	**86**	50
Net overprovision in prior years/period	**(28)**	(37)
Deferred	**(8,749)**	(1,893)
Total tax credit for the year/period	**(8,536)**	(1,690)

At the date of this announcement, the Group received protective assessments amounting to approximately HK$197,000,000 (equivalent to US$25,321,000) 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 2012/2013 (the "**Case**"). Objections have been lodged by the Group 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 protective assessments for these years.

The Group submitted a settlement proposal as part of 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 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. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (eight months ended 31 December 2017: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year/period attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year/period, after taking into account the share subdivision of the Company with effect from 10 August 2017.

The Group had no dilutive potential ordinary shares in issue for the year/period.

The calculations of the basic and diluted loss per share are as follows:

	Year ended 31 December 2018 *US$'000*	Eight months ended 31 December 2017 *US$'000*
Loss		
Loss attributable to owners of the Company *(US$'000)*	**(84,160)**	(76,187)
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year/period *('000)*	**1,509,593**	1,452,654

8. PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

	Property, plant and equipment *US$'000*	Other intangible assets *US$'000*	Total *US$'000*
At 1 January 2018, net of accumulated depreciation and amortisation	**595**	**54,565**	**55,160**
Additions	**482**	**–**	**482**
Disposals	**(6)**	**–**	**(6)**
Depreciation charged for the year	**(343)**	**–**	**(343)**
Amortisation charged for the year	**–**	**(13,266)**	**(13,266)**
Impairment during the year	**–**	**(21,747)**	**(21,747)**
Exchange realignment	**(12)**	**(1,076)**	**(1,088)**
At 31 December 2018, net of accumulated depreciation, amortisation and impairment	**716**	**18,476**	**19,192**
At 1 May 2017, net of accumulated depreciation	269	–	269
Acquisition of subsidiaries	111	59,689	59,800
Additions	419	–	419
Disposals	(3)	–	(3)
Depreciation charged for the period	(209)	–	(209)
Amortisation charged for 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

During the year ended 31 December 2018, the Group recognised impairment losses on other intangible assets of US$21,747,000. The impairment was assessed together with the goodwill under the same cash-generating unit of the operation of online social platforms in accordance with HKAS 36, which were disclosed in Note 9.

9. GOODWILL

	US$'000
At 1 January 2018, net of accumulated impairment	**68,531**
Impairment during the year	**(66,496)**
Exchange realignment	**(2,035)**
At 31 December 2018, net of accumulated impairment	**–**
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, and operation of online social platforms are 8% (2017: 12%) and 27% (2017: 28%) respectively. The discount rate applied to others was 10% as at 31 December 2017. The estimated growth rates 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% (2017: 0%) and 3% (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.

During the year ended 31 December 2018, the Group recognised impairment losses of US$12,733,000 and US$53,763,000 in connection with goodwill allocated to the cash-generating units of trading and supply chain management services, and operation of online social platforms respectively (eight months ended 31 December 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), since the values in use of the cash-generating units were below their respective carrying amounts. The impairment losses were made based on the results of impairment tests for the goodwill using their values in use in accordance with HKAS 36.

The impairment loss of US$12,733,000 in connection with the goodwill arising from the trading and supply chain management services was mainly a result of an expected future decline in revenue due to a challenging business environment and the fact that the businesses of certain of the Group's customers are also adversely affected by the China-US trade dispute.

The impairment loss of US$53,763,000 in connection with the goodwill arising from the operation of online social platforms was due to the increasingly challenging and competitive business environment and tightening government policy, the growth in this segment is expected to be slowing down.

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**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
Goodwill	**–**	12,733	**–**	55,798	**–**	–	**–**	68,531

10. TRADE RECEIVABLES

	2018	2017
	US$'000	*US$'000*
Trade receivables	**9,342**	9,130
Impairment	**(568)**	(552)
	8,774	8,578

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing. The carrying amount of the trade receivables approximates to its fair value.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of loss allowance, is as follows:

	2018	2017
	US$'000	*US$'000*
Within 30 days	**5,521**	4,704
31 to 60 days	**2,158**	2,501
61 to 90 days	**409**	343
91 to 365 days	**686**	1,029
Over 1 year	**–**	1
	8,774	8,578

11. TRADE PAYABLES

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

	2018	2017
	US$'000	*US$'000*
Within 30 days	**2,691**	4,329
31 to 60 days	**898**	826
61 to 90 days	**26**	112
91 to 365 days	**127**	47
Over 1 year	**57**	70
	3,799	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 year ended 31 December 2018 (eight months ended 31 December 2017: Nil).

(b) Loan from a former director

At 31 December 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:

	Year ended 31 December 2018	Eight months ended 31 December 2017
	US$'000	*US$'000*
Short term employee benefits	**1,368**	910
Post-employment benefits – defined contribution plans	**67**	49
Total compensation paid to key management personnel	**1,435**	959

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

The current financial year covering 12 months from 1 January 2018 to 31 December 2018 may not be entirely comparable with last year's results which included only eight months from 1 May 2017 to 31 December 2017, as the Company changed its financial year end date from 30 April to 31 December since the financial year 2017.

During the year ended 31 December 2018, the Group achieved a revenue of approximately US$107.5 million (eight months ended 31 December 2017: approximately US$78.5 million), with credits to a satisfactory growth in revenue of its online social platforms acquired in 2017, which contributed approximately US$43.5 million of revenue (eight months ended 31 December 2017: approximately US$14.8 million).

Gross profit was approximately US$27.7 million (eight months ended 31 December 2017: approximately US$18.2 million), of which approximately US$9.4 million was contributed by the operation of online social platforms (eight months ended 31 December 2017: approximately US$3.0 million).

Operating expenses amounted to approximately US$33.0 million (eight months ended 31 December 2017: approximately US$23.6 million). The increase was mainly attributable to the increase in expenses in relation to the operation of the online social platforms business, which was in line with the business growth in this segment.

Loss for the year ended 31 December 2018 amounted to approximately US$84.2 million (eight months ended 31 December 2017: approximately US$76.2 million). The loss included non-cash impairment losses on goodwill of approximately US$66.5 million, and amortisation and impairment losses on other intangible assets of approximately US$35.0 million (eight months ended 31 December 2017: non-cash impairment losses on goodwill of approximately US$73.1 million and amortisation of other intangible assets of approximately US$7.6 million). Excluding the non-cash impairment losses on goodwill and amortisation and impairment losses on other intangible assets, net of deferred tax credit of approximately US$8.7 million (eight months ended 31 December 2017: approximately US$1.9 million), the Group's profit for the year ended 31 December 2018 would have been approximately US$8.6 million (eight months ended 31 December 2017: approximately US$2.6 million).

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 year ended 31 December 2018, shipment value for trading and supply chain management services was approximately US$185.0 million (eight months ended 31 December 2017: approximately US$145.5 million).

Shipment value for provision of services and trading of merchandise accounted for approximately 72% and 28% (eight months ended 31 December 2017: approximately 62% and 38% respectively) of the Group's total shipment value respectively.

Geographical Analysis

	Shipment Value	
	Year Ended 31 December 2018	Eight Months Ended 31 December 2017
	US$'million	*US$'million*
North America	**101.9**	74.5
Europe	**48.0**	34.4
Others	**35.1**	36.6
Total	**185.0**	145.5

Shipments to North America were approximately US$101.9 million, contributing approximately 55.1% of the total shipment value (eight months ended 31 December 2017: approximately 51.2%).

Shipments to Europe were approximately US$48.0 million and presently account for approximately 25.9% of the total shipment value (eight months ended 31 December 2017: approximately 23.6%).

Shipments grouped under "Others", comprising mainly shipments to the southern hemisphere represented approximately 19.0% of the total shipment value (eight months ended 31 December 2017: approximately 25.2%). The drop was mainly due to decrease in orders from certain Australian customers.

The trading and supply chain management services segment recorded revenue of approximately US$64.0 million (eight months ended 31 December 2017: approximately US$63.7 million), representing approximately 59.5% of the Group's total revenue (eight months ended 31 December 2017: approximately 81.1%).

(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. It provides a variety of online social and entertainment services, including a claw crane mobile online game, to a large number of users in the PRC. The revenue of this segment surged by 195.2% to approximately US$43.5 million (eight months ended 31 December 2017: approximately US$14.8 million), contributing around 40.5% of the Group's total revenue (eight months ended 31 December 2017: approximately 18.8%).

(iii) Money lending business

There was no loan granted or no new borrower during the year ended 31 December 2018 (eight months ended 31 December 2017: US$95,000).

As the business environment has been highly volatile in these years, the management decided to terminate the money lending business in 2019, so that the Group can focus its resources on developing its two major businesses.

Impairment Losses on Goodwill and Other Intangible Assets

During the year ended 31 December 2018, the Group recognised non-cash impairment losses on goodwill and other intangible assets of approximately US$66.5 million and US$21.7 million respectively, of which approximately US$12.7 million and US$75.5 million were allocated to the trading and supply chain management services and operation of online social platforms, respectively.

The impairment losses have been made in view of the increasingly competitive and challenging business environment and the management expects a future decline in revenue in both business segments. In respect of the trading and supply chain management services, the businesses of certain of the Group's customers are adversely affected by the challenging business environment and the China-US trade dispute, hence the management expects there may be a future decline in revenue due to fewer orders being placed by these customers. As for the operation of online social platforms, the management also sees a slowdown of growth as a result of increasingly challenging and competitive business environment and tightening government policy for this sector.

The abovementioned impairment losses are recognised based on the results of impairment tests for the goodwill and other intangible assets based on their values in use in accordance with HKAS 36. Details of the goodwill and other intangible assets are set out in Notes 8 and 9 of this announcement.

Hong Kong Tax Case

As at the date of this announcement, the Group has received protective assessments amounting to approximately HK$197,000,000 (equivalent to US$25,321,000) from the IRD in respect of 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 has maintained 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 is still under negotiation with the IRD. Despite the unknown outcome, 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$17.2 million as at 31 December 2018 (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 31 December 2018 (2017: approximately US$10.3 million and US$0.1 million, respectively).

The Group had a current ratio of approximately 1.6 and a gearing ratio of zero, based on no interest-bearing borrowings and total equity of approximately US$24.6 million as at 31 December 2018. There has not been any material change in the Group's borrowings since 31 December 2018.

As at 31 December 2018, trade receivables amounted to approximately US$8.8 million (2017: approximately US$8.6 million). Gross trade receivables aged over 90 days, which amounted to approximately US$1.2 million and which are related to trading and supply chain business, are being carefully monitored by management and sufficient provision has been made.

The Group's net asset value recorded was approximately US$24.6 million as at 31 December 2018 (2017: approximately US$111.5 million).

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

As at 31 December 2018, the Group had no material contingent liabilities or guarantees, or charges on any Group assets.

Remuneration Policy and Staff Development Scheme

As at 31 December 2018, the Group had 389 employees (2017: 400). Total staff costs for the year ended 31 December 2018 amounted to approximately US$15.3 million (eight months ended 31 December 2017: US$10.8 million).

The Group offers competitive remuneration schemes to its employees based on industry practice as well as 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 performance and that of the Group as a whole.

Prospects

Looking ahead, the management expects that the global economic environment is likely to remain uncertain in view of the ongoing China-US trade dispute, posing challenges to the Group's trading and supply chain management services business, especially in the first half of 2019. Exports have been negatively affected as customers are now more conservative, in particular, the United States ("**US**") customers are demanding that sourcing shift away from the PRC.

The headwinds should not, however, impede the Group's efforts to continue to develop new business and expand procurement beyond China in order to meet customers' requirements, especially for those from the US. Just as importantly, the Group will steadfastly continue to expand its product offerings and offer competitive prices so as to strengthen ties with its key customers. Constantly seeking efficiency, the Group will also embrace information technologies to implement positive changes to its operations.

As for the operation of online social platforms, Duimian, one of the Group's gamified mobile social networking platforms, is expected to be adversely affected by tighter government policy and intensified industry competition in the PRC in the coming year. Unwaveringly, the Group will continue to develop and launch a variety of innovative mobile entertainment games, building on the foundation of its self-developed claw crane mobile online game which is among the most popular of its kind.

To summarise, the Group will continue to develop its two major businesses and carefully evaluate suitable acquisition and investment opportunities in order to create value for shareholders of the Company (the "**Shareholders**").

Corporate Events After the Reporting Period

Close of Money Lending Business

The principal activities of the Group consist of three operating segments, (i) trading and supply chain management services, (ii) operation of online social platforms, and (iii) money lending business.

There was no loan granted or no new borrower for the money lending business since July 2017. The Directors considered that it would be advantageous from the resource allocation perspective of the Group to close the non-core money lending business. The close of money lending business would not have any material adverse effect on the business, operations or financial position of the Group.

The Group would focus on its core business activities, namely trading and supply chain management services, and operation of online social platforms.

Termination of Framework Agreement in relation to the Possible Investment in a TV Drama

Reference is made to the announcement of the Company on 24 December 2017 in relation to the framework agreement (the "**Framework Agreement**") entered into between Huoerguosi Hanbo Culture Industry Limited* (霍爾果斯瀚泊文化產業股份有限公司) (the "**Producer**") and the Group in relation to the possible cooperation in the production of a TV drama series.

As disclosed in the paragraph headed "Close of Money Lending Business" above in this announcement, the Group would focus on its two core business activities. Thus, the Group would not proceed with the Framework Agreement. Both of the Producer and the Group have been released from all obligations under the Framework Agreement. It would not have any material adverse effect on the business, operations or financial position of the Group.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting (the "**AGM**") of the Company will be held on Friday, 31 May 2019. For the purpose of ascertaining the Shareholders' rights of attending and voting at the forthcoming AGM, the register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019, both days inclusive. In order to be entitled to attend the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 20 May 2019.

* *For identification purpose only*

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2018.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's results for the year ended 31 December 2018 as set out in this announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2018. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement and consequently no assurance has been expressed by Ernst & Young on this announcement.

AUDIT COMMITTEE

The Audit Committee currently comprises the three Independent Non-executive Directors, namely Mr. LAU Shu Yan, Mr. WANG Arthur Minshiang and Mr. ZHANG Huijun. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters. The audited consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2018, the Company has complied with all the applicable code provisions (the "**Code Provisions**") of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), save for the deviations as described below:

Code Provision E.1.2 of the CG Code requires the Chairman of the Board to attend the AGM. Due to other business commitments, Mr. ZHOU Xijian was not able to attend the AGM held on 31 May 2018 (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 was carried out with the Shareholders.

A corporate governance report of the Company with details of the policies and practices on corporate governance will be set out in the Company's 2018 annual report.

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 for the year ended 31 December 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 for the year ended 31 December 2018.

PUBLICATION OF THE FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.daoheglobal.com.hk) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2018 annual 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, 26 March 2019

As at the date of this announcement, the Non-executive Director of the Company is Mr. ZHOU Xijian, the Executive Directors are 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.