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)**

# SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS AND ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2018

References are made to the annual results announcement and the annual report of Daohe Global Group Limited (the "**Company**", and together with its subsidiaries, collectively the "**Group**") for the year ended 31 December 2018 published by the Company on 26 March 2019 and 26 April 2019 respectively (the "**2018 Annual Results**" and the "**2018 Annual Report**" respectively). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2018 Annual Results and the 2018 Annual Report.

As disclosed in the 2018 Annual Results and the 2018 Annual Report, the Company recognised the impairment losses on goodwill of approximately US$66.5 million and amortisation and impairment losses on other intangible assets of approximately US$21.7 million for the year ended 31 December 2018 in (1) the trading and supply chain management services, and (2) the operation of online social platforms. As disclosed in the 2018 Annual Results and the 2018 Annual Report, the impairment losses have been made in view of the increasingly competitive and challenging business environment and the management expectation of a future decline in revenue in both business segments.

The Company wishes to provide additional information in relation to the impairment losses in these two business segments.

## (1) TRADING AND SUPPLY CHAIN MANAGEMENT SERVICES

The Group recognised an impairment loss on goodwill of US$12.7 million allocated to the trading and supply chain management, as a result of the increasingly challenging and competitive business environment of this segment. The shipment value for the Company has dropped year by year over the last few years and many customers have been facing over-stocking issues and price pressure from the growth of online sales. The situation deteriorated even further after the commencement of the China-US trade war and the impact was expected to materialise in early 2019. Although the major products under the segment are apparels, which have not been included on any of the tariff lists thus far, the US customers are worried about the escalation of the US-China trade tensions and the extension of the tariffs to all categories. That implies the margin of the products sourced from China for these US customers would be impacted if further tariffs are applied.

In 2018, more than 50% of the business under this segment were generated from US customers, of which approximately 60% of the products were sourced from China. Most of the US customers showed concerns over the growing trade dispute between China and the US. Accordingly, many US customers had diversified their manufacturing sources or tried to explore other sources in order to better manage any eventualities that the Group's overseas suppliers would not have enough capacities to take up these orders if all of them opt to switch their manufacturing sources from China to overseas. As a result, there was a reduction in the orders received and the management expected the business will drop further in 2019.

**(2) OPERATION OF ONLINE SOCIAL PLATFORMS**

The Group recognised an impairment loss on goodwill and intangible assets of US$75.5 million allocated to the operation of online social platforms, as a result of the increasingly challenging and competitive business environment of this segment and tightening government policy. The Public Information Network Security Supervision Branch of the Public Security Bureau of Shenzhen (深圳市公安局公共信息網絡安全監察分局) imposed a new government policy on 28 August 2018 pursuant to which all the identities of online users have to be verified with valid mobile number, and the contents on the operation of online social platforms including live streaming presented to the public are under the measures of monitoring and control. The number of monthly new users has dropped due to the implementation of the new government policy as the individual users are reluctant to provide personal details for registration. The drop in the number of monthly new users led to the drop in internet value-added services revenue and also the reduction in sales order from corporate clients, which in turn led to the decrease in advertising revenue.

The terminal growth rate used in the valuation to support the impairment assessment has been increased from 2.6% to 3%. The board of directors of the Company considered that the terminal growth rate is mainly affected by the macroeconomic indicators, mainly the long-term inflation rate. The application of long-term inflation rate in the valuation methodology is consistent with the valuations applied by the independent valuer, as of 31 December 2018 and 31 December 2017.

Despite the adverse impact arising from the new policy, the Group has not changed the business model and looking forward, the Group will continue to develop new games and new functionality on its mobile applications, with a view to enhancing its profitability and generating satisfactory returns for the shareholders of the Company.

The above additional information does not affect other information contained in the 2018 Annual Report.

By Order of the Board
**Daohe Global Group Limited**
**HO Chi Kin**
*Company Secretary*

Hong Kong, 22 May 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, Mr. HO Chi Kin, and Mr. LONG Liping and the Independent Non-executive Directors are Mr. WANG Arthur Minshiang, Mr. LAU Shu Yan and Mr. ZHANG Huijun.*