

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO
ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

Reference is made to the announcement (the “**Announcement**”) of Aurum Pacific (China) Group Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) dated 22 March 2019 in relation to the audited annual results of the Group for the year ended 31 December 2018. Terms used herein shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

The Company would like to provide the following supplemental information relating to the impairment loss on goodwill (the “**Goodwill**”) in the amount of approximately HK\$24.9 million (the “**Impairment Loss**”):

Reasons and Circumstances Leading to the Impairment Loss

The Impairment Loss is relating to the Group’s acquisition of 60% equity interest (the “**Sale Shares**”) in First Surplus Investments Ltd. (together with its subsidiaries, the “**FS Group**”) (the “**Acquisition**”) for HK\$150.0 million (the “**Consideration**”) in the year of 2016. The Goodwill with carrying amount of approximately HK\$89.4 million was generated from the Acquisition.

Following the recognition of the Goodwill, an impairment review on the Goodwill is required under the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standard 36 *Impairment of Assets*. In December 2018, the Company engaged AVISTA Valuation Advisory Limited (the “**Valuer**”), an independent qualified valuer, to perform the valuation of the FS Group (the “**Valuation**”). The Valuer is a professional valuation and financial advisory firm and is experienced in performing full range of valuation and financial advisory services for private and public listed companies located in various countries around the globe. The Valuer team comprises professionals who previously worked in various industries such as investment banks, international accounting firms or international valuation and advisory companies. The Valuer has diversified experience in carrying out goodwill impairment assessment for the businesses across different industries, particularly the game industries operated around the world.

During the Valuation process, the Board provided the Valuer with the future cashflow forecast of the business of the FS Group for the year ended 31 December 2018 (the “**Revised Forecast**”), which was considered necessary because of the valuation method adopted by the Valuer. In preparation of the Revised Forecast, the Board noted the deterioration of the financial performance of the FS Group. The Board identified the following factors that caused the deterioration on the financial results of the FS Group for the year ended 31 December 2018:

- (i) the increasing risk of changes in government regulation in the People’s Republic of China (the “**PRC**”) of the online game market that may limit future growth of the FS Group. Online gaming is a highly regulated industry in the PRC. For each newly developed online game, government’s approval is required before any payment is charged in the game. However, for the eight-month period from April to November 2018, the State Administration of Press, Publication, Radio, Film and Television of PRC suspended approving new domestically developed online games;
- (ii) the competition among game producers intensified in 2018 due to (1) the falling market growth rate and (2) highly concentrated market, resulting in higher production and marketing cost;
- (iii) given these external environment factors set out in (i) and (ii) above, the revenue of the FS Group dropped from approximately HK\$35.1 million for the year ended 31 December 2017 to approximately HK\$21.9 million for the year ended 31 December 2018, representing a decrease of approximately 37.7%, and the revenue did not meet the original forecast for 2018 prepared at the end of the year 2017 (the “**Original Forecast**”); and

- (iv) in response to the regulatory changes and the market uncertainty, the Board had adopted a new sales strategy for one of the mobile games owned by the FS Group to mitigate the investment costs and decrease in revenue. The Board decided to distribute this particular game under licensing arrangement rather than self-publishing in the coming years. In 2018, the Group signed a licensing agreement with a well-known game publisher in the PRC with the total amount of US\$2.5 million which would be settled within a prescribed period to lessen any further negative impact.

Facing the negative impact brought by the regulatory change and shrinking market growth on the revenue of online gaming sector, the Board decided to revise the Original Forecast figures with a more prudent approach, which formed the basis of the valuation model adopted by the Valuer. The Valuer provided the Valuation to the Company on 6 March 2019. The recoverable amount in Goodwill of approximately HK\$64.5 million was below the carrying amount of the Goodwill by approximately HK\$24.9 million. The Valuation reflected a prudent and sensible forecast of the FS Group under the recent regulatory change and diminishing growth in online game industry in the PRC and the Impairment Loss was required to be recognized in the statement of profit or loss. The amount of the Impairment Loss which was included in the consolidated financial statements of the Company for the year ended 31 December 2018 had been agreed by Baker Tilly Hong Kong Limited, the independent external auditors of the Company, and approved by the Board.

Valuation on the Goodwill

The Company relied on the Valuation report prepared by the Valuer, in which income approach was adopted to assess the recoverable amount of the FS Group, in assessing the impairment on the Goodwill.

Valuation Methodology and Basis

Given that there is no or limited recent transaction with similar business as the FS Group and after considering the operating and industry environment of the FS Group and its business nature, the Board and the Valuer believed that income approach would be the most appropriate approach in reaching the value-in-use.

Value of Inputs

The Company understands that the key factors that had been taken into account in reaching the recoverable amount of the FS Group, being the cash-generating units (the “CGU”), included:

- (i) expected changes in revenue and direct costs during the forecast period, which covered the five years following the financial year ended 31 December 2018 – changes in revenue and direct costs were anticipated based on the past practices and expectations on the future changes in the market;
- (ii) growth rates were estimated based on the industry and market data; and
- (iii) discount rates were estimated by using pre-tax rates that reflect current market assessments of the time value of money and the risks related to the FS Group.

The Company prepared the cash flows forecast based on the latest financial budgets for the next five years approved by the Board. The cash flows beyond those five years were extrapolated using a steady growth rate of 3.0% for the CGU, which was considered reasonable by the Board with reference to, among others, the rate adopted by several public listed companies within the same industry in the years of 2017 and 2018 and the projected future demand and supply of mobile gaming industry. The pre-tax rate used to discount the forecast cash flows for the CGU was 26.1%.

Basis and Assumptions

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

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

- (i) there will be no major changes in the existing political, legal, fiscal and economic conditions in the countries that the FS Group is operating;
- (ii) the availability of finance will not be a constraint on the forecast growth of the FS Group’s operation in accordance with the business plan;
- (iii) the information provided and the estimations/representations made by the Board are complete, accurate and reliable; and

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

The Board's Assessment of the Acquisition

Corporate Strategy

At the time of the Acquisition, the Board at the time had analysed and considered a number of factors thoroughly before arriving at the final decision.

The revenue and loss of the Group for the year ended 31 December 2015 were approximately HK\$41.3 million and HK\$26.0 million respectively. The Board had been actively seeking new business opportunities in order to diversify the Group's business, broaden its income source and enhance the long-term growth potential of the Group, which in their view would be in the best interests of the Company and the shareholders of the Company (the "**Shareholders**") as a whole.

As stated in the circular of the Company dated 24 September 2016 in relation to the Acquisition, the mobile online game industry had experienced rapid growth in the PRC and such growth was expected to continue in next few years driven by the rapid growth of smartphone penetration and the increased demand for online entertainment.

The Company engaged an independent qualified valuer to undertake a valuation to determine the fair value of the FS Group. The Consideration of HK\$150.0 million was in line with the fair value of the Sale Shares of approximately HK\$153.4 million as determined by the valuer.

The Directors also considered that by utilising the Group's information technology-related experiences, synergy effect could be achieved with its principal businesses through the Acquisition.

After taking into account of the above factors and analysis carefully and thoroughly, the Board considered that the Acquisition would be in the best interest of the Company and the Shareholders as a whole and the Consideration was fair and reasonable.

Due Diligence Procedures Performed for the Acquisition

In order to protect the interest of the Company, prior to entering into of the sale and purchase agreement (the "**Agreement**") in relation to the Acquisition, the Company had performed reasonable and sufficient due diligence on the FS Group. It was one of the conditions precedent for completion of the Agreement that the Group being satisfied with the results of the due diligence review of the FS Group.

The Company engaged an independent audit advisory firm as independent auditor to conduct a financial due diligence on the FS Group in order to obtain a thorough understanding on the background, business and financial affairs, financial position and tax compliance status of the FS Group. The Company also engaged a Hong Kong lawyer to conduct a legal due diligence on the FS Group to examine the shareholding structure and various legal aspects, to ensure the legality of its business and compliance with the applicable laws and regulations and also to confirm titles to its assets. The due diligence reports did not contain any material findings which would suggest that the Acquisition was against the interest of the Company.

The Board considered that the Directors at the time of the Acquisition had conducted sufficient and reasonable due diligence procedures ordinarily expected for transaction of this nature and scale.

Commercial Terms

In the negotiation for the Acquisition, the Board had negotiated, in good faith, for favorable commercial terms. In order to protect the interest of the Company and the Shareholders, the following terms were included in the Agreement:

- (i) the vendors of the FS Group (the “**Vendors**”) should provide the Group with an irrevocable and unconditional profit guarantee of the FS Group for twelve months following completion of the Acquisition. If the FS Group fails to meet the profit guarantee, the Group can exercise the put option to sell the Sale Shares to the Vendors at the price equivalent to the Consideration and the Vendors are obliged to purchase the Sale Shares at such price; and
- (ii) the Vendors should guarantee to procure certain of the then key management personnel of the FS Group to enter into legally binding service agreement with the FS Group to continue to serve the FS Group for a period of no less than two to three years after completion of the Acquisition.

As provided above, the main reasons leading to the Impairment Loss were regulatory control and fierce competition etc. that took place subsequent to completion of the Acquisition, which were beyond the knowledge and expectation of the Directors at the time of the Acquisition. The Board, in view of the above factors and the due diligence and protective measures adopted, considers that it had fulfilled their fiduciary duties and duties of skills, care and diligence to act in good faith in the interests of the Company and the Shareholders as a whole in relation the Acquisition despite the Impairment Loss.

By Order of the Board of
Aurum Pacific (China) Group Limited
Chan Kwun Chung
Executive Director

Hong Kong, 14 June 2019

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Chan Kwun Chung and Mr. Ng Kin Man, one non-executive Director, namely Mr. Zheng Yongqiang and four independent non-executive Directors, namely Mr. Leung Man Chun, Mr. Fok Kin Fung Eric, Mr. Pang Siu Yin and Dr. Lee G. Lam.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the website of the Company at www.aurumpacific.com.hk.