Sheen Tai Holdings Group Company Limited
順泰控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 01335)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Reference is made to the announcement of Sheen Tai Holdings Group Company Limited (the "**Company**" and its subsidiaries, collectively referred to as the "**Group**") dated 29 March 2018 in relation to the annual results for the year ended 31 December 2017 (the "**Results Announcement**") and the announcements of the Company dated 17 March 2016, 18 March 2016, 23 June 2016, 25 July 2016 and 31 March 2017 in relation to the acquisition of the entire issued share capital of Treasure Cloud Limited involving issuance of convertible bonds (collectively, the "**Announcements**"). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements.

Further to the information disclosed in the Results Announcement, the Company wishes to provide to the shareholders of the Company and the potential investors with the following supplementary information:

(I) IMPAIRMENT LOSS TO THE CLOUD-RELATED BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2017

(A) Reasons, details of events and circumstances that led to impairment losses of the cloud-related business of the Company

The Cloud-related Business started generating revenue for the Group since completion of its acquisition of the entire issued share capital of Treasure Cloud Limited ("**Treasure Cloud**", together with its subsidiaries, the "**Treasure Cloud Group**") in June 2016 (the "**Treasure Cloud Acquisition**"). The Cloud-related Business recorded revenue amounting to approximately RMB30 million to the Group for the year ended 31 December 2016, which matched the guaranteed revenue of the cloud platforms using the resources of Jiangsu Guang He Hui Yun Technology Company Limited ("**Guang He Hui Yun**") for the year as set out in the sale and purchase agreement dated 17 March 2016 in relation to the Treasure Cloud Acquisition.

It was in July 2017 when the management of the Company was provided with proof evidencing the downturn of the Cloud-related Business. The profit distribution to the Company provided by Guang He Hui Yun for the six months ended 30 June 2017 showed that the Treasure Cloud Group did not record any revenue contributed to the Group for the reporting period. As discussed with the management of Guang He Hui Yun, the Company considers that the downturn of the Cloud-related Business from 2016 to 2017 was mainly attributable to the factors set out as follows:

a) ***The loss of a major customer posed a significant impact on the Cloud-related Business***

A renowned television broadcast provider in the People's Republic of China (the "**PRC**") was one of Guang He Hui Yun's major customers of the Cloud-related Business (the "**Major Customer**"). Since late 2016 and early 2017, the Major Customer suffered from serious financial difficulties. As it transpired, Guang He Hui Yun no longer supplied any cloud-related services to the Major Customer through the 15 cloud platforms of the Company and subsequently recorded a drastic decrease in revenue of the cloud-related business segment in 2017 due to the loss of the Major Customer.

b) ***The impediment to the cooperation with Guang He Hui Yun on the operation of the cloud platforms***

Pursuant to the Cloud Platform Operating Agreement, Guang He Hui Yun has been responsible for the operation of the 15 cloud platforms of the Group since July 2016. At that time, an operational team (the "**Operational Team**") which specialised in managing the cloud platforms was set up by Guang He Hui Yun. It was until mid-2017, Guang He Hui Yun and the Company began to diverge on their views on the running of the cloud platforms and consequently, led to the halt of the proposed expansion of the existing Operational Team.

As a result of the above reasons, the customer base could not be expanded in the midst to the ongoing negotiations between Guang He Hui Yun and the Company. Guang He Hui Yun also suspended its cooperation with the Major Customer due to the Major Customer's internal problems as mentioned above. On this account, the operation and management of the 15 cloud platforms started to decelerate and thus affected the overall performance of the cloud-related segment of the Group for the year ended 31 December 2017.

As at 31 December 2016, the carrying amount of the goodwill, intangible assets and property, plant and equipment in connection with the CGU of the Cloud-related Business were HK$49,645,000, HK$182,763,000 and HK$39,598,000, respectively.

The Company performed the impairment assessment of the cash-generating until (the "**CGU**") of the Cloud-related Business by estimating its value in use and the fair value less costs of disposal of its property, plant and equipment and engaged an independent professional valuer to conduct the 2017 Valuation (as defined below).

Due to the downturn of the Cloud-related Business as explained above and taking into account the 2017 Valuation, which sets out the appraised value of the CGU of the Cloud-related Business to be lower than the carrying amount thereof as at 31 December 2016, the Group has revised its cash flow forecasts for the CGU of the Cloud-related Business with the recoverable amount of the CGU reduced to HK$32,790,000 and an impairment loss of HK$49,645,000 recognised on goodwill, HK$162,807,000 on intangible assets and HK$5,099,000 on property, plant and equipment.

As a result of the above reasons, the Company estimated that the operation of cloud platforms would be affected significantly in the projection period and recognized an impairment loss of the Cloud-related Business in the audited financial statements of the Company for the year ended 31 December 2017. Save as disclosed hereinabove, the Company is not aware of any other significant reason or change in circumstances during the financial year ended 31 December 2017 leading to impairment loss of the Cloud-related Business. The Directors are of the view that the impairment to the Cloud-related Business to be of a prudent nature.

Noticing the acute downturn of the Cloud-related Business, the Company has taken active steps to monitor the business process of its cloud-related segment and has endeavored to negotiate with Guang He Hui Yun to seek for future business plan on operating the cloud platforms since August 2017. The Company will continue to actively facilitate communications with Guang He Hui Yan so as to reach a consensus on the details of the future operation of the cloud platforms and continue to make every effort in improving the revenue contributed to the Group from its cloud-related segment in 2018.

(B) Value of inputs and methodology adopted in assessing the impairment loss

In accordance with the Group's accounting policies and Hong Kong Financial Reporting Standards, the Company successively conducted two valuations on the fair value of Treasure Cloud Limited on 31 December 2016 (the "**2016 Valuation**") and 31 December 2017 (the "**2017 Valuation**"). Set out below are the value of inputs and methodology adopted in the two valuations:

	Valuation report for year ended 31 December 2017 (the "2017 Valuation")	Valuation report for year ended 31 December 2016 (the "2016 Valuation")	Reasons for differences
Valuation date	31 December 2017	31 December 2016	
Valuer	Greater China Appraisal Limited (the "**GCA**")	D&P China (HK) Limited (formerly known as American Appraisal China Limited)	
Subject	(i) The fair value less costs of disposal of 100% equity interest (the "**Equity Interest**") in Treasure Cloud Limited and its subsidiaries ("**Treasure Cloud Group**"); (ii) The value-in-use of the Equity interest as at the valuation date; (iii) The fair value of the equipment of Treasure Cloud Group; and (iv) Fair value of Third and Fourth Tranche Convertible Bond.	(i) Fair value of the business enterprise of Treasure Cloud Limited for goodwill impairment test; (ii) Fair value of the Cloud Platform Operating Agreement as an intangible asset; (iii) Fair value of First Tranche Convertible Bond; and (iv) Fair value of Second, Third and Fourth Tranche Convertible Bond.	The subjects of the 2017 Valuation and 2016 Valuation are different as the two valuations were prepared under different operational circumstances and factors. There was not any impairment indicators during the preparation of the 2016 Valuation and thus the valuation only focused on the fair value of the overall Treasure Cloud Group. On the contrary, as the Company was aware that there were impairment indicators by the end of 2017 of the Treasure Cloud Group, the 2017 Valuation covered all assessment of the Treasure Cloud Group including fair value and value-in-use.

	Valuation report for year ended 31 December 2017 (the "2017 Valuation")	Valuation report for year ended 31 December 2016 (the "2016 Valuation")	Reasons for differences
Basis of valuation	Income approach (i.e. discounted cashflow method)	Income approach (i.e. discounted cashflow method)	
Forecast period	For the nine years ending 31 December 2026	For the nine years ended 31 December 2025	
Discount Rate	25.12%	20%	Both of the discount rates are derived from the weighted average cost of capital. The differences were primarily attributable to, among others, specific company risk premium, the risk free rate, market risk premium and the different selection criteria of the comparable companies as well as variations in estimates adopted.
Terminal revenue growth rate	3%	3%	

(C) Assumptions adopted in assessing the impairment loss in the 2016 Valuation and the 2017 Valuation

Certain assumptions were adopted in both the 2016 Valuation and the 2017 Valuation and the major ones are as follows:

- a standard profit tax rate of 25% was applied for the calculation of future profit tax;

- settlement terms of receivables derived from revenue of cloud-related segment was estimated to be 180 days;

- the research and development expense was expected to be around 6% on revenue related to the software sales of the Cloud-related Business in future years;

- a long term of sustainable growth rate of 3% was adopted from the end of the forecast period onwards;

- both Treasure Cloud Group and Guang He Hui Yun would adhere to the terms of the Cloud Platform Operating Agreement and remain in a stable cooperative relationship; and

- the financial health and development of business of Guang He Hui Yun was in good condition and would be sustainable along with Treasure Cloud group.

The key difference of the assumption adopted in the 2016 and 2017 Valuation was the basis of revenue of the cloud platforms. This was mainly due to the significant change of operational conditions between the 2016 Valuation and the 2017 Valuation. In particular, in contrast to the 2016 Valuation, the basis of revenue in the 2017 Valuation took into account of the adverse situation of Treasure Cloud Group as a result of the downturn of the Major Customer and cooperation conditions between the Company and Guang He Hui Yun in 2017.

Save as above, the valuation method of discounted cash flow has been consistently applied in the 2016 Valuation and the 2017 Valuation and there have been no significant changes in the methodology, input values or assumptions applied in the 2017 Valuation as compared with that of the 2016 Valuation.

(II) NON-FULFILLMENT OF REVENUE GUARANTEE IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF TREASURE CLOUD LIMITED

Revenue Guarantee in relation to the acquisition of the entire issued share capital of Treasure Cloud Limited

Pursuant to the Sale and Purchase Agreement dated 17 March 2016 (as supplemented and amended by the Supplemental Agreement dated 23 June 2016 and the Supplemental Deed dated 25 July 2016 thereto) entered into between the Company and the Vendor (collectively, the "**Agreements and Deed**"), the Vendor irrevocably warrants and guarantees to the Company that for the year ended 31 December 2017, the aggregate of the audited consolidated revenue (audited in accordance with International Financial Reporting Standards (including Hong Kong Financial Reporting Standards)) attributable to Sheyang Tengyun and Xuyi Guangcai and arising from the operation of the Cloud Platforms by Guang He Hui Yun (the "**2017 Revenue pursuant to Cloud Platform Operating Agreement**") shall not be less than the 2017 Revenue Guarantee of RMB37,500,000.

The Board hereby announces that the revenue generated in operating the Cloud Platform by Guang He Hui Yun for the year ended 31 December 2017 amounted to approximately RMB4,953,000 while the 2017 Revenue pursuant to Cloud Platform Operating Agreement contributed to the Group was nil, which fails to meet the 2017 Revenue Guarantee. Accordingly, pursuant to the terms of the Agreements and Deed and as the Vendor has not made any Cash Compensation to the Company, no Third Tranche Convertible Bond has been issued to the Vendor. Besides, the difference between the 2017 Revenue pursuant to Cloud Platform Operating Agreement contributed to the Group and the 2017 Revenue Guarantee of RMB37,500,000 has been rolled over to the period for the year ended 31 December 2018 and the 2018 Revenue Guarantee is increased by RMB37,500,000 to RMB86,250,000.

The Board is of the view that the failure to meet the 2017 Revenue Guarantee will not pose any material adverse impact on the business operation of the Group as a whole.

By Order of the Board
Sheen Tai Holdings Group Company Limited
Guo Yumin
Chairman

Hong Kong, 23 April 2018

As at the date of this announcement, the executive Directors are Mr. Guo Yumin, Ms. Xia Yu, Mr. Guo Cheng and Mr. Zeng Xiangyang and the independent non-executive Directors are Ms. Fan Qing, Mr. Fong Wo, Felix and Mr. Lo Wa Kei, Roy.