e-Kong Group Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 524)

SUPPLEMENTAL ANNOUNCEMENT REGARDING ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

Reference is made to the announcement (the "**Announcement**") of e-Kong Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 28 March 2018 in relation to the annual results of the Group for the year ended 31 December 2017. Terms used herein shall have the same meanings as defined in the Announcement unless the context requires otherwise.

The Company would like to provide the following supplementary information in relation to the Announcement:

Circumstances leading to the impairment loss of Hangzhou Susong

As disclosed in the Announcement, in June 2016, Stage Charm Limited, a wholly owned subsidiary of the Company, acquired from an independent third party the entire issued shares of an investment holding company which holds 90% equity interests of Hangzhou Susong Technology Company Limited* (杭州蘇頌科技有限公司) ("**Hangzhou Susong**"). Hangzhou Susong is engaged in the IT and Distribution business. Goodwill of this business was impaired by approximately HK$21.0 million for the year ended 31 December 2017 (the "**Impairment**"). The Board would like to supplement the following circumstances leading to the Impairment.

During the first half of 2017, Hangzhou Susong was in the negotiation process regarding possible cooperation with two potential material clients on financial payment processing solution and software development. At the same time, Hangzhou Susong had been leveraging on the existing resources to identify small to medium client and was able to maintain steady income in financial payment processing solution and software development. Therefore, during the first half of 2017, the overall business condition of Hangzhou Susong remained stable. In the second half of 2017, although the cooperation with the said two potential material clients did not materialize, Hangzhou Susong was still able to maintain stable cooperation with other small to medium clients in financial payment processing solution and software development.

However, in the second half of 2017, the increasing stringent regulations on financial payment processing solutions promulgated by the PRC government had created negative impact on Hangzhou Susong in retaining existing clients and developing new clients in the overall IT and Distribution Business. Therefore, the revenue of Hangzhou Susong for the second half of 2017 had decreased as compared with the same period of 2016. As disclosed in the business update announcement of the Company dated 10 December 2017, the business of Hangzhou Susong has been falling short of the Directors' expectation as originally contemplated by the Directors at the time of acquisition. As such, the Company had appointed an independent valuer to perform an appraisal of the value in use of Hangzhou Susong as at 31 December 2017 which had made a downward adjustment on the expected growth rate of Hangzhou Susong as a result of the impact of the government policies on the effectiveness of the original business model of Hangzhou Susong, resulting in the impairment of approximately HK$21 million in 2017.

In this connection, the table below sets out the valuation method, major assumptions and details of the value of inputs used in the valuation for performing the impairment assessment:

	Valuation performed for impairment assessment
Date of valuation	31 December 2017
Valuation target	Hangzhou Susong Science and Technology Company Limited
Valuation methodology	Discounted cash flow, income approach
Major assumptions	(i). CAGR of 14.2% from 2018 to 2022
	(ii). Gross margins range from 68% to 82% during the forecast period between 2018 and 2022
	(iii). EBIT margins range from 56% to 72% during the forecast period between 2018 and 2022
	(iv). Corporate tax rate: 25%
	(v). Terminal growth: 3%
Discount rate	22%

Due diligence procedures performed for the acquisition of Hangzhou Susong

The Company wishes to supplement that the Company had performed the following due diligence procedures in entering into the acquisition of Hangzhou Susong:

(i). the Company had engaged a PRC lawyer to issue the general and property due diligence reports for Hangzhou Susong and the Company had reviewed the said reports. The said due diligence reports provide, among others, that:

    (a). the shareholding structure of Hangzhou Susong did not involve any circumstances which involve the violation of the mandatory provisions of the laws and regulations of the PRC;

(b). during the period from 1 January 2014 to 20 June 2016, Hangzhou Susong did not have any non-compliance record for taxation affairs;

(ii). the Company had engaged an independent auditor to issue a financial and taxation health check report (財務及稅務健康檢查報告) for the year ended 31 March 2013 and 2014, which provides, among others, analysis on the reasonableness of the financial statement, providing recommendation on internal control process and analysis on compliance with taxation matters of Hangzhou Susong; and

(iii). the Company had engaged an independent auditor to conduct audit on the financial statements of Hangzhou Susong for the year ended 31 December 2015.

As stated above, before the entering of the acquisition, the Company had engaged PRC lawyers to conduct PRC legal due diligence on Hangzhou Susong and independent auditor to conduct financial health check and audit on the financial statements of Hangzhou Susong to obtain an understanding on the background, business and financial affairs of Hangzhou Susong. Upon review of the relevant due diligence reports issued by the PRC lawyers and the auditor, at the time of the acquisition, no affairs was brought to the attention of the Company which would suggest that the Impairment was likely. The Company considered that the aforesaid due diligence procedures represent the procedures which are ordinarily expected for transaction of this nature and are therefore sufficient and reasonable for the acquisition.

Further, as disclosed above, the Impairment was mainly caused by the deteriorating financial performance of Hangzhou Susong in the second half of 2017 as a result of the increasing stringent regulations on financial payment processing solutions promulgated by the PRC government, which was beyond the expectation and knowledge of the directors of the Company at the time of acquisition. In view of the above factors, the Company considers that the Directors had conducted the necessary due diligence procedures ordinarily expected for transaction of this nature and fulfilled their fiduciary duties and duties of skill, care and diligence to act in good faith in the interests of the Company and its shareholders as a whole despite the Impairment.

The additional information set out above does not affect other information contained in the Announcement and the contents of the Announcement remain unchanged.

By Order of the Board
e-Kong Group Limited
Zhao Ruiyong
Chairman and Executive Director

Hong Kong, 24 April 2018

As at the date of this announcement, the Board comprises six executive Directors, namely Mr. Zhao Ruiyong, Ms. Li Bing, Mr. Cheung Ka Heng Frankie, Mr. Chan Chi Yuen, Mr. Wong Xiang Hong and Mr. Yeung Chun Sing Standly, and four independent non-executive Directors, namely Mr. Fung Chan Man Alex, Mr. Fung Wai Shing, Mr. Zhao Guangming and Mr. Huang Tao.

* *for identification purpose only*