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SUCCESS DRAGON INTERNATIONAL HOLDINGS LIMITED

勝龍國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1182)

SUPPLEMENTAL ANNOUNCEMENT IN RESPECT OF IMPAIRMENT LOSS

Reference is made to the announcements (the “**Announcements**”) of the Company dated 24 February 2017, 24 March 2017, 15 June 2018 and 27 June 2018 and the Company’s Annual Report for the year ended 31 March 2018 (the “**Annual Report**”) in relation to, among others, investment (the “**Investment**”) by the Company in 73,251,487 Series E Preferred Shares (the “**Primus Shares**”) in Primus Power Corporation (“**Primus**”) and the impairment of the Primus Shares (the “**Impairment**”).

Further to the information disclosed in the announcement dated 27 June 2018, the board (the “**Board**”) of directors (the “**Directors**”) of the Company wishes to provide further information on the Impairment as follows.

The Primus Shares were revalued in June 2018 by Savills Valuation and Professional Services Limited, an independent professional valuer (the “**Valuer**”) engaged by the Company to perform a valuation of the Primus Shares held by the Company as at 31 March 2018. The Valuer noted the change of the financial position and near-term prospects of Primus since the Investment and provided the Company with the first draft of the workings in respect of its valuation on 5 June 2018. On 14 June 2018, the Company’s management became aware that an impairment loss in Primus Shares was determined by the Valuer because the carrying amount in the Primus Shares had exceeded the fair value in Primus Shares. With reference to the fair value as at 31 March 2018 appraised by the Valuer, an impairment loss of approximately HK\$102.3 million (the “**Impairment Loss**”) had been recognized on the Primus Shares which was classified as available-for-sale investments for the year ended 31 March 2018. Such Impairment Loss was calculated as the amount by which the carrying amount of the Investment exceeds its fair value. Details of fair value measurements for available-for-sale investments and valuation conducted by the Valuer are listed below and set out in note 6 to the consolidated financial statements in the Annual Report. In addition, the Company’s auditor ZHONGHUI ANDA CPA Limited audited the fair value measurements for available-for-sale investments in the Group’s consolidated financial statements for the year ended 31 March 2018 and concluded that such fair value

measurements were supported by available evidences. For details of audit procedures, please refer to the section headed “Available-for-sale Investments” in the Independent Auditor’s Report in the Annual Report.

Prior to the entering into of the Primus Agreement, the Company had performed sufficient and reasonable due diligence under the direction of the Directors in office at the relevant times, including, among others, reviewing information collected from Primus relating to its financial position, existing shareholders and patents owned, face-to-face discussions with the management of Primus and obtaining advice from financial adviser and legal adviser. Based on the above, the Directors in office at the relevant times were of the view that the consideration payable by the Group under the Primus Agreement was arrived at after arm’s length negotiations between the Company and Primus with reference to, inter alia, the value of Primus based on its last series of equity financing in 2016, the progress of its business development since its last series of equity financing, market conditions and the conditions and prospects of the renewable energy industry. As such, the Directors in office at the relevant times considered that the Consideration was fair and reasonable and in interests of the Company and the shareholders of the Company (the “Shareholders”) as a whole and approved the Primus Agreement. The Board wishes to state that the events or circumstances resulting in the Impairment were not anticipated by the Company at the time of the Investment, further details of which are contained in the announcement of the Company dated 24 February 2017. The Board considers that the Directors in office at the relevant times had fulfilled their fiduciary duties and duties of skill, care and diligence to act in good faith in the interest of the Company and the Shareholders as a whole under Rule 3.08 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in respect of the Investment.

FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 March:

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Recurring fair value measurements:				
Available-for-sale investments				
Private equity investments —				
Primus Shares	—	—	54,157	54,157
	<u>—</u>	<u>—</u>	<u>54,157</u>	<u>54,157</u>
Total recurring fair value measurements	<u>—</u>	<u>—</u>	<u>54,157</u>	<u>54,157</u>

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Recurring fair value measurements:				
Available-for-sale investments				
Private equity investments —				
Primus Shares	—	—	158,568	158,568
	<u>—</u>	<u>—</u>	<u>158,568</u>	<u>158,568</u>
Total recurring fair value measurements	<u>—</u>	<u>—</u>	<u>158,568</u>	<u>158,568</u>

During the year ended 31 March 2018, there were no transfer between Level 1 and Level 2, or transfers into or out of Level 3 (2017: nil). The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The Group's finance team is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the board of directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the board of directors at least twice a year.

The level 3 fair value measurements were valued at their fair values at 31 March 2018. The fair values were valued by Savills Valuation and Professional Services Limited (2017: Jones Lang LaSalle Corporate Appraisal and Advisory Limited), an independent professionally qualified valuer which holds a recognised relevant professional qualification and has recent experience in valuation.

(b) Reconciliation of assets measured at fair value based on level 3:

	Available-for-sale investments
	Equity investments — Primus Shares 2018 HK\$'000
At the beginning of year	158,568
Total gains or losses recognised in profit or loss	
— impairment loss of available-for-sale investments	(102,343)
— exchange difference	1,040
Total gain or losses recognised in other comprehensive income	<u>(3,108)</u>
At the end of year	<u><u>54,157</u></u>
	Available-for-sale investments
	Equity investments — Primus Shares 2017 HK\$'000
Acquisition of investment	155,460
Total gains or losses recognised in other comprehensive income	<u>3,108</u>
At the end of year	<u><u>158,568</u></u>

The total gains recognised in other comprehensive income are presented in fair value changes of available-for-sale investments in the consolidated statement of profit or loss and other comprehensive income.

The total losses (2017: gains) recognised in other comprehensive income are presented in fair value changes of available-for-sale investments in the consolidated statement of profit or loss and other comprehensive income.

- (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 March:

Key unobservable inputs used in level 3 fair value measurements are mainly:

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2018 <i>HK\$'000</i>
Available-for-sale investments	Market approach	Forward price-to-sales multiple	1.2–3.4	Increase	
		Discount of lack of marketability	30%	Decrease	54,157
Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of Inputs	Fair value 2017 <i>HK\$'000</i>
Available-for-sale investments	Market approach	Price-to-book multiple	6.57–6.83	Increase	
		Forward price-to-sales multiple	5.53–5.57	Increase	
		Discount of lack of marketability	42.44%–42.45%	Decrease	158.568

VALUATION METHODOLOGY AND BASIS

Due to the significant uncertainty in the achievement of a long term forecast and the lack of detailed information on the projections, the Valuer did not adopt the income approach to value the Primus Shares.

The Valuer had not adopted the asset approach or cost approach as Primus had invested a significant amount in developing its product and the value of its technology could not be reflected by Primus's net assets value or development cost.

Since there were numerous publicly listed comparable companies that had developed or were developing similar products as Primus and some were comparable to Primus at similar stages of development, the Valuer had adopted the market approach in the valuation of the Primus Shares.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Success Dragon International Holdings Limited
KWAN Chun Wai Roy
Chairman, executive director and chief executive officer

Hong Kong, 1 August 2018

As at the date of this announcement, the board comprises two executive directors, namely Mr. KWAN Chun Wai Roy and Mr. DING Lei; and five independent non-executive directors, namely Mr. YONG Peng Tak, Mr. CHUNG Yuk Lun, Mr. CHI Dong Eun, Mr. DENG Yougao and Ms. WONG Chi Yan.