太陽國際集團有限公司

SUN INTERNATIONAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8029)

ANNOUNCEMENT
FURTHER INFORMATION IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2019

Reference is made to the annual report (the "**Annual Report**") of Sun International Group Limited (the "**Company**") for the year ended 31 March 2019. Capitalised terms used here in shall have the same meanings ascribed to them in the Annual Report.

The board of directors of the Company (the "**Board**") hereby provides the following additional information in relation to the basis of the auditors' qualified opinion.

(a) Goodwill

According to paragraph 6 of Hong Kong Standard on Auditing ("**HKSA**") 510 "Initial Audit Engagements – Opening Balances" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), "*The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by … Performing specific audit procedures to obtain evidence regarding the opening balances.*" Therefore, the current auditors of the Company reviewed the impairment assessment of goodwill for the securities brokerage and asset management business and money lending business as at 31 March 2018. The current auditors compared the actual performance of these businesses for the year ended 31 March 2019 to the forecast prepared by the management of the Company and its subsidiaries (collectively referred to as the "**Group**") when assessing the impairment loss for the year ended 31 March 2018 (the "**2018 Forecast**"). The current auditors considered that (i) certain forecasted financial figures in the 2018 Forecast cannot be reached substantially; (ii) with reference to the actual performance, certain assumptions used by the management of the Group on the 2018 Forecast may not be substantially achievable by the Group; and (iii) impairment loss on goodwill of approximately

HK$8,943,000 has been recognised in the consolidated profit or loss for the year ended 31 March 2019. If the 2018 Forecast is adjusted, the goodwill as at 31 March 2018 might be impaired.

For the impairment assessment of goodwill for securities brokerage and asset management business, the current auditors considered that there is insufficient appropriate audit evidence to assess the recoverability of the goodwill allocated to the cash-generating units of securities brokerage and asset management business and money lending business respectively given that:- (i) the growth rate of revenue on securities brokerage business for the year ended 31 March 2019 in the 2018 Forecast was 15% while the actual growth rate is 2%; and (ii) no revenue for asset management business was generated for the year ended 31 March 2019.

Against such backdrop, when approving the consolidated financial statements of the Group for the year ended 31 March 2019, the directors and the audit committee of the Company considered that when performing impairment assessment on goodwill for the year ended 31 March 2019, the management of the Group has forecasted future revenue based on past performance and their expectation for market development. The values assigned were based on historical experience, current market condition and approved forecasts and consistent with external information sources. The directors of the Company considered that due to the global economic growth is expected to slow down, the Group's securities brokerage and asset management business and money lending business should be operated in a more prudent approach. The directors of the Company, therefore, reduced the financial budgeted revenue estimation, which caused the carrying amount of securities brokerage and asset management business cash-generated-unit ("**CGU**") and money lending business CGU as at 31 March 2019 exceeded their value in use based on the cash flow projections. Accordingly, an impairment loss of approximately HK$5,443,000 was recognised to goodwill allocated to securities brokerage and asset management business CGU and a full impairment loss of approximately HK$3,500,000 was recognised to goodwill allocated to money lending business CGU during the year ended 31 March 2019.

Further, the directors and the audit committee of the Company consider that the Group's assessment on the impairment loss on goodwill as at 31 March 2018 were still appropriate and in accordance with the requirements of Hong Kong Accounting Standard ("**HKAS**") 36 "Impairment of Assets" as of that time, for the reasons set out below:–

(i) In preparing the impairment assessment of goodwill for the securities brokerage business for the year ended 31 March 2018, the management of the Group estimated the budgeted revenue would have annual growth rate ranging from 5% to 15% for the seven years ending 31 March 2025. The estimation is based on (i) the industry trend of the securities business in Hong Kong, where the management of the Group has engaged an independent professional valuer to perform valuation on the recoverable amount of the securities brokerage business and the growth rate is supported by the valuation report which stated that "*according to the Securities and Futures Commission ("SFC") of Hong Kong, the* *total net profits of all securities dealers and securities margin financiers for 2017 was HKD 35 billion, which shows a growth of 67% year over year. The main reason for the growth is due to increases in net securities commission income due to the higher transaction volumes, net profit on proprietary trading and other income. This data is further reinforced by the data from SEHK which shows that the average daily turnover was HKD 88.2 billion, which is up by 32% compared to 2016.*"; (ii) the trend based on the audited financial information of the Group that the revenue increased from the year ended 31 March 2013 to the year ended 31 March 2018 by a compound annual growth rate of 58%; and (iii) the latest financial information of the revenue earned in the securities brokerage business.

(ii) In preparing the impairment assessment of goodwill for the assets management business for the year ended 31 March 2018, the management of the Group estimated that the Group would generate revenue in the financial year ending 31 March 2020 and the budgeted revenue would have annual growth rate ranging from 2% to 4% for the five years ending 31 March 2023. The estimation is based on (i) the industry trend of the assets management business in Hong Kong, where the management of the Group has engaged an independent professional valuer to perform valuation on the recoverable amount of the assets management business and the growth rate is supported by the valuation report which stated that "*there are currently estimated 2,800 SFC-authorized collective investment schemes available as at December 2017. Hong Kong is ranked 3rd in the investment management industry trailing only London and New York. Assets under management ("AUM") by Hong Kong domiciled SFC-authorized funds increased by 12% year over year. Hong Kong is the largest wealth management centre for the PRC. The market potential is expending due to the escalating combined wealth in the PRC.*"; (ii) projected performance on the existing asset under management ("**AUM**") of the Group; and (iii) the Group intended to expend the asset management business.

(iii) In preparing the impairment assessment of goodwill for the money lending business for the year ended 31 March 2018, the management of the Group estimated the budgeted revenue would have annual growth rate ranging from 8% to 31% for the five years ending 31 March 2023. The estimation is based on (i) the industry trend of the money lending business in Hong Kong, where the management of the Group has engaged an independent professional valuer to perform valuation on the recoverable amount of the money lending business and the growth rate is supported by the valuation report which stated that "*The rising demand for money lending service in Hong Kong is the major factor contributing to the continuous growing of total loan value outstanding, especially for the licensed money lenders. It is expected that the loan value outstanding by licensed money lenders will rise to HKD49.9 trillion from the HKD24.2 trillion, due to the growing loan demand in personal loans and mortgage loans.*"; (ii) the trend based on the audited financial information of the Group that the revenue increased from the year ended 31 March 2013 to the year ended 31 March 2018 where the business experienced the highest growth rate of 34% in the year ended 31 March 2014; and (iii) the latest financial information of the revenue earned in the money lending business.

In such circumstances, the directors and the audit committee of the Company consider that no remeasurement is required when the management preparing the consolidated financial statements of the Group for the year ended 31 March 2019. On the other hand, upon the Group assessed the recoverable amount of goodwill as at 31 March 2019 and impairment loss of approximately HK$8,943,000 has been recognised during the year ended 31 March 2019, the directors and the audit committee of the Company consider that the carrying amounts of goodwill as at 31 March 2019 in the consolidated financial statements of the Group for the year ended 31 March 2019 were prepared in a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA.

(b) Medium-term bonds

During the period commenced from 2 January 2015 and ended on 5 November 2015, the Group issued medium-term bonds for a term of five years with aggregate principal amounts of HK$36,000,000 to various independent third parties according to the approvals issued by CIS Securities Asset Management Limited (formerly known as CONVOY Investment Services Limited).

Paragraph 43 of HKAS 39 "Financial Instruments: Recognition and Measurement" requires that "*...when a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus ... transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.*"

The medium-term bonds were initially recognised at their aggregate principal amounts of HK$36,000,000 and the transaction costs of approximately HK$5,472,000 were recognised in profit or loss at inception dates. This recognition is departure from the requirements of HKAS 39 that the transaction costs have to be deducted from the medium-term bonds and the medium-term bonds should therefore be initially recognised at approximately HK$30,528,000.

Paragraph 47 of HKAS 39 requires that "*after initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method ...*"

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the effective interest expense over the relevant period.

If the medium-term bonds are recognised at approximately HK$30,528,000 at inception dates, effective interest expenses would be recognised over the five-year period and the carrying amounts of the medium-term bonds would become the aggregate principal amounts of HK$36,000,000 at maturity dates.

During the preparation of the consolidated financial statements of the Group for the year ended 31 March 2018, the management of the Group realised the departure and consulted with the predecessor auditor of the Company on the appropriate accounting treatments in according with HKFRSs issued by the HKICPA. Therefore, the Group remeasured the carrying amounts of the medium-term bonds as at 31 March 2018 with reference to their fair values of approximately HK$34,955,000 measured by an independent professional valuer and the difference to the opening balance was recognised in the effective interest expenses in profit or loss. Assuming the medium-term bonds were recognised at approximately HK$30,528,000 at the inception dates and effective interest method was applied, the carrying amounts of the medium-term bonds should be approximately HK$33,195,000 as at 31 March 2018.

When approving the consolidated financial statements of the Group for the year ended 31 March 2018, the directors and the audit committee of the Company noticed the above departure and differences and considered that such differences were immaterial. Therefore, the directors and the audit committee of the Company considered that the medium-term bonds in the consolidated financial statements of the Group for the year ended 31 March 2018 were prepared in a true and fair view in accordance with HKFRSs issued by the HKICPA.

During the preparation of the consolidated financial statements of the Group for the year ended 31 March 2019, the Group remeasured the carrying amounts of the medium-term bonds as at 31 March 2019 with the assumptions that the medium-term bonds were recognised at approximately HK$30,528,000 at the inception dates and effective interest method was applied. Upon the remeasurement, the carrying amounts of the medium-term bonds became approximately HK$34,369,000 as at 31 March 2019 and the difference to the opening balances was recognised in the effective interest expenses in profit or loss.

Because of the above remeasurements, the effective interest expenses on the medium-term bonds for the years ended 31 March 2018 and 2019 of approximately HK$9,870,000 and HK$1,934,000 respectively and the carrying amount of the medium-term bonds as at 31 March 2018 of approximately HK$34,955,000 were not prepared in accordance with the effective interest method appropriately.

Because of the above remeasurements, the current auditors of the Company have enquired the management of the Group and the predecessor auditor and reviewed the working papers of the predecessor auditor on the accounting treatment of the medium-term bonds. However, the working papers could not demonstrate how the effective interest method is applied in the medium-term bonds. Therefore, the current auditors considered that they have been unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the basis of measurement of the effective interest expenses on the medium-term bonds for the years ended 31 March 2018 and 2019 were prepared by the effective interest method in accordance with the applicable HKFRSs and whether the carrying amounts of medium-term bonds as at 31 March 2018 were free from material misstatements.

When approving the consolidated financial statements of the Group for the year ended 31 March 2019, the directors and the audit committee of the Company noticed the above departure and differences and considered that such differences were immaterial. Besides, the carrying amounts of the medium-term bonds as at 31 March 2019 were measured appropriately and the management of the Group would measure the medium-term bonds in subsequent financial statements in accordance with applicable HKFRSs. Therefore, the directors and the audit committee of the Company considered that no adjustments on the current or prior years would be provided to the consolidated financial statements of the Group for the year ended 31 March 2019.

(c) Promissory notes

On 29 February 2016, the Group issued promissory note with principal amount of approximately HK$128,695,000 as consideration for the acquisition of Sun International Securities Limited (the "**2016 Promissory Note**").

The 2016 Promissory Note was recognised at its fair value of approximately HK$103,178,000 at inception date in accordance with paragraph 43 of HKAS 39. The Group also applied the effective interest method to calculate the amortised cost of the 2016 Promissory Note and to allocate the interest expense over the relevant period in accordance with paragraph 47 of HKAS 39.

During the preparation of the consolidated financial statements of the Group for the year ended 31 March 2018, the management of the Group realised that the effective interest method has not been applied appropriately due to mathematical mistakes and consulted with the predecessor auditor of the Company on the appropriate calculation. Therefore, the Group remeasured the carrying amount of the 2016 Promissory Note with reference to its fair value of approximately HK$122,747,000 measured by an independent professional valuer and the difference to the opening balance was recognised in the effective interest expenses in profit or loss. Assuming the effective interest method was applied properly since inception date, the carrying amounts of the 2016 Promissory Note should become approximately HK$120,337,000 as at 31 March 2018.

When approving the consolidated financial statements of the Group for the year ended 31 March 2018, the directors and the audit committee of the Company noticed the above differences and considered that such differences were immaterial. Therefore, the directors and the audit committee of the Company considered that the 2016 Promissory Note in the consolidated financial statements of the Group for the year ended 31 March 2018 were prepared in a true and fair view in accordance with HKFRSs issued by the HKICPA.

During the preparation of the consolidated financial statements of the Group for the year ended 31 March 2019, the Group remeasured the carrying amount of the 2016 Promissory Note as at 31 March 2019 with the assumption that the effective interest method was applied properly since the inception date. Upon the remeasurement, the carrying amount of the 2016 Promissory Note became approximately HK$128,695,000 as at 31 March 2019 and the difference to the opening balances was recognised in the effective interest expenses in profit or loss.

Because of the above remeasurements, the effective interest expense on the 2016 Promissory Note for the years ended 31 March 2018 and 2019 of approximately HK$8,311,000 and

HK$8,522,000 respectively and the carrying amount of the 2016 Promissory Note as at 31 March 2018 of approximately HK$122,747,000 were not prepared in accordance with the effective interest method appropriately.

Further on 31 January 2018, the Group issued promissory notes with the aggregate principal amount of HK$378,000,000 as consideration for the acquisition of Sun Finance Company Limited (the "**2018 Promissory Notes").**

The 2018 Promissory Notes were initially recognised in the aggregate principal amount of HK$378,000,000 instead of the fair value of approximately HK$360,163,000 measured by an independent professional valuer in accordance with paragraph 43 of HKAS 39.

During the preparation of the consolidated financial statements of the Group for the year ended 31 March 2018, the management of the Group realised the departure and consulted with the predecessor auditor of the Company on the appropriate accounting treatments in according with HKFRSs issued by the HKICPA. Therefore, the Group remeasured the carrying amount of the 2018 Promissory Notes as at 31 March 2018 with reference to the fair value of approximately HK$360,191,000 measured by an independent professional valuer and the difference to the opening balance was recognised in the effective interest expenses in profit or loss. Assuming the 2018 Promissory Notes were recognised at the fair value of approximately HK$360,163,000 at the inception date and effective interest method was applied, the carrying amount of the 2018 Promissory Notes should become approximately HK$365,298,000 as at 31 March 2018.

When approving the consolidated financial statements of the Group for the year ended 31 March 2018, the directors and the audit committee of the Company noticed the above departure and differences and considered that such differences were immaterial. Therefore, the directors and the audit committee of the Company considered that the 2018 Promissory Notes in the consolidated financial statements of the Group for the year ended 31 March 2018 were prepared in a true and fair view in accordance with HKFRSs issued by the HKICPA.

During the preparation of the consolidated financial statements of the Group for the year ended 31 March 2019, the Group remeasured the carrying amount of the 2018 Promissory Notes as at 31 March 2019 with the assumptions that the 2018 Promissory Notes were recognised at the fair value of approximately HK$360,163,000 at the inception date and effective interest method was applied. Upon the remeasurement, the carrying amount of the 2018 Promissory Notes became approximately HK$346,222,000 as at 31 March 2019 and the difference to the opening balances was recognised in the effective interest expenses in profit or loss.

Because of the above remeasurements, the effective interest expense on the 2018 Promissory Notes for the years ended 31 March 2018 and 2019 of approximately HK$4,277,000 and HK$36,308,000 respectively and the carrying amount the 2018 Promissory Notes as at 31 March 2018 of approximately HK$360,191,000 were not prepared in accordance with the effective interest method appropriately.

Because of the above remeasurements, the current auditors of the Company have enquired the management of the Group and the predecessor auditor and reviewed the working papers of the predecessor auditor on the accounting treatment of the 2016 Promissory Note and the 2018 Promissory Notes. However, the working papers could not demonstrate how the effective interest method is applied in the 2016 Promissory Note and the 2018 Promissory Notes. Therefore, the current auditors considered that they have been unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the basis of measurement of the effective interests expenses on the 2016 Promissory Note and the 2018 Promissory Notes for the years ended 31 March 2018 and 2019 were prepared by the effective interest method in accordance with the applicable HKFRSs and whether the carrying amounts of the 2016 Promissory Note and the 2018 Promissory Note as at 31 March 2018 were free from material misstatements.

When approving the consolidated financial statements of the Group for the year ended 31 March 2019, the directors and the audit committee of the Company noticed the above departure and differences and considered that such differences were immaterial. Besides, the carrying amounts of the 2016 Promissory Note and the 2018 Promissory Notes as at 31 March 2019 were measured appropriately and the management of the Group would measure the 2016 Promissory Note and the 2018 Promissory Notes in subsequent financial statements in accordance with applicable HKFRSs. Therefore, the directors and the audit committee of the Company considered that no adjustments on the current or prior years would be provided to the consolidated financial statements of the Group for the year ended 31 March 2019.

(d) Corresponding figures – loan and interest receivables and advances to customers in margin financing

The predecessor auditor of the Company issued an adverse opinion on the consolidated financial statements of the Group for the year ended 31 March 2018 because of the omission of the information mentioned in the "Basis for Adverse Opinion" section of its audit report. Further, the predecessor auditor was unable to obtain sufficient and appropriate audit evidence on the recoverability of, and hence the adequacy of the impairment loss on, certain loan and interest receivables and certain advances to customers in margin financing as at 31 March 2018 under the requirements of HKAS 39.

Paragraph 11 of HKSA 710 "Comparative Information – Corresponding Figures and Comparative Financial Statements" stated that "*If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.*"

During the preparation of the consolidated financial statements of the Group for the year ended 31 March 2019, the Group has applied a new accounting standard Hong Kong Financial Reporting Standard ("**HKFRS**") 9 "Financial Instruments" in accordance with the transition provisions set out in HKFRS 9, i.e. applied the impairment under expected credit loss model retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application). The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening retained profits without restating comparative information.

Because there is no reassessment of the impairment loss on loan and interest receivables and advances to customers in margin financing as at 31 March 2018 under the requirements of HKAS 39 has been performed during the preparation of the consolidated financial information of the Group for the year ended 31 March 2019, the impairment loss for the year ended 31 March 2018 and the carrying amounting as of that date were remained unchanged.

The directors and the audit committee of the Company consider that the Group's assessment on the impairment loss on loan and interest receivables and advances to customers in margin financing as at 31 March 2018 were still appropriate and in accordance with the requirements of HKAS 39 as of that time. Therefore, no remeasurement is required when the management preparing the consolidated financial statements of the Group for the year ended 31 March 2019. On the other hand, they considered that the Group has adopted the new impairment assessment requirements under HKFRS 9 properly as at 1 April 2018 and 31 March 2019. Therefore, the directors and the audit committee of the Company considered that no adjustments on the current or prior years would be provided to the consolidated financial statements of the Group for the year ended 31 March 2019.

The current auditors of the Company consider that the previous year matters which gave rise to the modification by the predecessor auditor is unresolved. Therefore, they modified their opinion on the corresponding figures of the consolidated financial statements of the Group for the year ended 31 March 2019.

By Order of the Board
Sun International Group Limited
Cheng Ting Kong
Chairman

Hong Kong, 23 September 2019

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Cheng Ting Kong, Ms. Cheng Mei Ching and Mr. Lui Man Wah and three independent non-executive Directors, namely, Mr. Chan Tin Lup, Trevor, Mr. Tou Kin Chuen and Mr. Jim Ka Shun.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the issuer. 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 posting and on the designed website of this Company at http://www.sun8029.com/.